THE

# THEORY

OF THE

# FOREIGN EXCHANGES.

Goschen



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# INTRODUCTION.

The inquiry which is conducted in the following pages belongs to that class of discussions for which, owing to the prevalent belief that they are peculiarly abstruse and technical, it is difficult, in ordinary times, to obtain a hearing. The moment must be seized for the ventilation of such subjects, when peculiar combinations of circumstances bring them into prominent and exceptional notice, and when they are exhibited as influencing or explaining events which are of universal interest and importance. To those who make the Foreign Exchanges their constant study, and examine them not only in the light in which they present themselves to the political economist, as an index of the balance of trade between different countries, but also from the point of view from which they are regarded by

bankers and merchants, as a reliable barometer of the state of the money-market, of the soundness of credit, of the rate of interest, and of the comparative position of the circulation in different countries, all monetary phases and mercantile incidents furnish an opportunity for correcting their theories by the test of facts. But comparatively few, even of leading bankers and merchants, with the exception of those who are exclusively or mainly engaged in international transactions, are as conversant with the subject as its immense importance deserves; and it is thought that the present situation of monetary affairs, in which the Foreign Exchanges are exercising an abnormal and extraordinary influence, affords a peculiarly suitable opportunity for a discussion, which otherwise might be considered uninviting and superfluous. The object proposed is by no means to propound any dogmatic theories, but rather to call attention to many facts which are commonly believed to be peculiarly complicated and unintelligible, which, however, if carefully analysed and illustrated, may be presented in a simple form, and under such an aspect as to command general assent.

If the present treatise should in any way contribute towards producing a better and clearer under-

standing of many principles, the true appreciation of which is absolutely indispensable for the formation of just and comprehensive views as to the laws which govern our money-market and our foreign commerce, it will have attained its end.

In the treatment of the subject, the main difficulty has been to decide what degree of acquaintance with the matters discussed, the readers of the present essay might be presupposed to possess ; and, further, from what point of view they might have been accustomed to regard it. The inquiry may be conducted on several distinct principles according to the class of readers who are likely to interest themselves in the investigation, and thus it is not easy to adopt a mode which shall be equally satisfactory to all. If addressed to those who have studied the subject theoretically themselves, much may be taken for granted, the exposition of which would be tedious and unnecessary, and would only serve to encumber the examination of the more interesting problems and theories ; while, on the other hand, if the general public is to share in the discussion, it seems necessary to adopt the opposite plan, and to presume that as yet the first axioms and leading features of the subject are but vaguely and inaccurately understood.

Under this supposition, it would be desirable to proceed as systematically and completely as possible, even at the risk of enumerating or illustrating much which, in the opinion of some, might be passed over in silence. A third and distinct course might be most suitable for those who, on the one hand, have ample practical acquaintance with the Foreign Exchanges, and accordingly may be addressed as persons conversant with the subject; but who, on the other hand, have not in any way systematised their experiences, or drawn any conclusions from the facts which they have observed. The Foreign Exchanges should be an object of interest as well to the political economist as to the general reader, but they will mainly fix the attention of the mercantile part of the community, who consciously or unconsciously are always under their influence. It is to this class that the present essay—which attempts to exhibit the relations of the Foreign Exchanges to our own money-market, as well as generally to international transactions, and to bring into clearer relief some of the hazy and indefinite notions which surround the subject—is primarily and mainly addressed. But while in this sense the inquiry is conducted from a mercantile point of view with the special desire of throwing light upon mer-

cantile questions, the author has attempted to be sufficiently precise in his arguments as not to offend the scientific theorist, and sufficiently diffuse in his illustrations and explanations as to make himself understood by the general and uninitiated reader. His only qualification for the undertaking is to be found in his having daily opportunities of studying many various forms of international transactions, and of practically feeling the effect of each different phase of the Foreign Exchanges. Without such opportunities it is exceedingly difficult to correct and test the various opinions which may be theoretically formed; but even with their aid, the author is conscious that he may prove unequal to his task. His motive for undertaking it is to be found in his conviction that the subject urgently requires ventilation, and in his hope that even an imperfect attempt in this direction may lead to further and more able investigation.

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# FOREIGN EXCHANGES.

## CHAPTER I.

### DEFINITION AND PRELIMINARY EXAMINATION OF THE TRANSACTIONS WITH WHICH THE FOREIGN EXCHANGES ARE CONCERNED.

In order to clear the ground for the consideration of the more interesting theories connected with the Foreign Exchanges, it is desirable in the first instance to define as clearly as possible the general meaning of the term. The phrase "Foreign Exchanges" is in itself vague and ambiguous, being more frequently used to express the rates at which the exchanges in question are effected than the exchanges themselves—the prices rather than the transactions. When it is said in technical phraseology that the exchanges are rising or falling, or that the exchanges are at specie point, allusion is made to the fluctuations in the terms on which bargains are made between the buyers and sellers of Foreign Bills. However, before we treat the subject in this sense of the

phrase,—that is to say, as denoting the rates at which exchanges take place,—it is necessary to examine the subject-matter of the exchange itself, and to realize distinctly what it is that is bought or sold, transferred or given in exchange. When the transaction takes a practical form, Foreign Bills,—that is to say, bills on foreign countries,—constitute this subject-matter; but a less technical explanation can be given. That which forms the subject of exchange is a debt owing by a foreigner and payable in his own country, which is transferred by the creditor or claimant for a certain sum of money to a third person, who desires to receive money in that foreign country, probably in order to assign it over to a fourth person in the same place, to whom he in his turn may be indebted. The operation which takes place is put very clearly by Mr. Mill in the following passage:—

"A merchant in England, A, has exported English commodities, consigning them to his correspondent B in France. Another merchant in France, C, has exported French commodities, suppose of equivalent value, to a merchant D in England. It is evidently unnecessary that B in France should send money to A in England, and

that D in England should send an equal sum of money to C in France. The one debt may be applied to the payment of the other, and the double cost and risk of carriage be thus saved. A draws a bill on B for the amount which B owes to him; D having an equal amount to pay in France buys this bill from A and sends it to C, who, at the expiration of the number of days which the bill has to run, presents it to B for payment. Thus the debt due from France to England, and the debt due from England to France, are both paid without sending an ounce of gold or silver from one country to the other."*

This explanation, however, involves the idea of the transaction being carried out by the instrumentality of an actual bill of exchange, which, at the present stage of the inquiry, it is better to ignore altogether. It will be found more convenient to treat the transaction, in the first instance, as a simple exchange of debts and claims without considering the instruments by which it is accomplished. In its most general form, the case may be stated as follows:—

As the result of international commerce, a certain portion of the community has become indebted to

* "Principles of Political Economy," ch. xx., par. 2.

merchants in foreign countries; and in order to save the trouble, risk, and expense of sending coin, they seek out another portion of the community to whom a similar amount is owing by the identical foreign countries in question, and, buying up these debts, assign them over in payment to their own foreign creditors. And if the aggregate sums owing by any two countries to each other were absolutely equal,—that is to say, equal in amount, equal in security, equal in the time when the debts become due, and equal in the proportion which the coin in which these debts are payable bears to the circulation of the respective country,—there would be no difficulty of any kind in determining the equivalent which the purchasers of such claims would pay to the sellers. It would simply be a sum equal to that which is payable abroad under the transferred claims. The amount required by the purchasers would be exactly equal to the amount held by the sellers; thus there would be no cause in operation to vary the price, and there would be no fluctuations in the rates of Foreign Exchanges. In technical language, they would always remain at par. But, conversely, we arrive at the point which forms the essence of the present discussion: the fluctuations

which actually take place in the Foreign Exchanges are in the first instance the result, and in the second, the manifestation, of the inequalities which exist in the debts of different countries to each other, in the amount of such debts, in the time within which these debts must be paid, and in the relation of the currency of one country to that of another.

It might have seemed easier to have explained the exchanges in question as the exchanges between different currencies, as of sovereigns against francs, or of florins against dollars; the more so, as practically this is the shape which actual transactions almost invariably assume. But by confining the definition to these cases, a most important, and indeed essential, feature would have been overlooked; that is to say, that though one system of coinage were adopted for all countries, claims on foreign countries would nevertheless vary in price, and would still be either at a premium or at a discount, according as there happened to be at any moment more persons desiring to transmit funds abroad than such as had outstandings abroad which they were entitled to draw in. For this is the first cause of what is generally spoken of as the rise and fall of

Foreign Exchanges. On some particular day, or through a given season, a large amount is required to be sent abroad in payment of debts; England, let us say, is heavily indebted to France, and the time has arrived for payment. At this time, however, it happens that in the opposite branch of trade, that which results in France being indebted to England, fewer transactions have taken place, and thus there are comparatively few who have accounts standing to their credit in Paris which they might transfer to those who have to remit; in other words, adopting the language of merchants, there are few who have bills upon France. The consequence is, that there is great competition for these few bills; those who do not bid high enough for them will either have to go through all the trouble of packing, insuring, and despatching gold, or else will not punctually meet their engagements. Thus those who have the bills to sell are able to obtain more than the actual par value for them; for, in consideration of their having a given sum already at a spot where another wishes to have it, and whither he will have to convey it himself at some expense if they do not cede it to him, they are able to secure for themselves the whole of the

benefit, which, if the exchanges were at par (that is to say, if the indebtedness of the two countries were equal), would be divided between the buyer and the seller. Instead of the arrangement being a mutual convenience, the seller is able, by the competition of the buyers, to secure the whole convenience to himself.

Supply and demand, in their usual form, determine this part of the transaction. Bills on France would in this case be at a premium. It is needless to draw out the opposite case, in which, there being more persons who had money to claim from France than those who required to send funds thither, bills on France would be at a discount. This is the first and most elementary phase in which the Foreign Exchanges can appear; and for the purpose of appreciating the most important lessons which can be derived from their study, it is better to discard the idea of the exchange taken place between different sorts of money, and to hold fast to the general principle that what is really given in exchange in the natural and simple transactions from which all others are derived, is a sum of money at one place for an equivalent sum of money at another. By way of anticipation it might, however, be stated here, that in contradistinction to this simplest

transaction, the most complicated would be one in which the sum of money given would be payable immediately, the equivalent recoverable three months later; the sum given be in gold, the equivalent in silver; the sum given be perfectly undoubted, being paid down at once, the equivalent be of doubtful character, because involving a lengthened credit. To establish the equality between the two sums, it would accordingly be necessary to take into consideration the relative value at the time of gold to silver, the amount of interest which would be lost by waiting three months, and the amount of risk which would be run by receiving a piece of paper representing a promise to pay three months hence in exchange for cash paid down. These are all considerations which affect the exchanges, and which indeed render the subject so complicated that the groundwork may easily be lost sight of. Discussions are sometimes held on the state of the Foreign Exchanges in which attention is paid mainly to the value of money in different countries, to the amount of bullion held by each, and to the relative position of their paper currency,—points, no doubt, of the highest moment in determining the fluctuations in the exchanges, but not entitled to

exclude the first and leading feature, their relative indebtedness. In studying the subject as a whole, it is above all things necessary to form a clear view of what is meant by international indebtedness, of the elements of which it is constituted, and the various phenomena which it presents. As soon as this elementary question which underlies the whole theory of the Foreign Exchanges is properly understood, and an idea has been gained of the various modes in which countries become indebted to one another, we shall proceed to consider the form which this indebtedness assumes when the time of settlement arrives and when the floating debt is fixed in bills of exchange. The course of the discussion will then naturally lead to the nature and form of these bills of exchange, to their purchase and sale, to the various influences which determine their price, to their frequent fluctuations, to the meaning and force of the term that the Foreign Exchanges are favourable or adverse, and to the value of the state of the exchanges as an index of international transactions. We shall first consider the debts themselves, and shall find them finally represented by, and embodied in, a constant mass of bills of exchange; it will then be necessary to inquire

whether these bills are payable at once, or at fixed future terms, whether they represent a final transaction or whether a portion only of a commercial operation, and how the rate of interest, the credit of the debtors, the indulgence of the creditors, the depreciation of the currency in which the bills are payable, affect their exchangeability. We shall examine what circumstances lead to a demand for bills on foreign countries, and how it is possible to check or intensify that demand. Thus, at the close of our investigation, we shall light on many of the most important questions which have lately been ventilated in monetary circles,—as to the possibility of checking the efflux of gold by a high rate of interest, as to the power which foreign capitalists, holders of bills of exchange on England, may exert over our money-market, as to the effect of these bills being all forced upon the money-market for discount at once instead of being gradually encashed as they mature, and other matters of this nature ; questions which are by no means theoretical or abstract, but of vital and practical importance to every one engaged in mercantile pursuits.

## CHAPTER II.

### ANALYSIS OF INTERNATIONAL INDEBTEDNESS CONSIDERED AS THE BASIS OF THE FOREIGN EXCHANGES.

THE first element which we have to consider in discussing the Foreign Exchanges is to be found, as has been already stated, in international indebtedness; the exchanges in question are exchanges of claims or debts, and an inquiry into the origin and nature of these debts will throw considerable light upon the subject.

It is an error often committed to imagine these debts to be incurred simply by the importation of foreign commodities, and to look on the balance of trade as a mere question of import and export, as being the excess of the one over the other. It is necessary to look closer into the transactions between two countries before an idea can be formed of the position of their mutual indebtedness.

It will be discovered to result not so much from the exchange of their respective produce as from the relative totals of all the amounts expended by each upon the other, whether in payment of produce and manufactures, or for the purchase of shares and public securities, or for the settlement of profits, commissions, or tribute of any kind, or for the discharge of the expenses incurred in foreign residence or travel; in fact, from the entire payments (or promises to pay) which pass between the respective countries. The idea of actual borrowing must be lost sight of; it is the liability incurred with which we are now concerned; and this liability is identical in its effect, whatever its origin may be.

Payments which have to be made by one country to another for any purpose whatsoever, have the same effect as payments for direct importations. Thus it is possible that the general indebtedness of two countries to each other may be almost balanced, though the one imports far more commodities from the other than those which it supplies in return. For instance, the excess may amount to three millions sterling; but the nation which, through this class of transactions, has thus become a creditor for the excess

of three millions, may spend one million thereof in remittances to such of its body as have taken up their residence in the other country, or have been travelling and spending money abroad: and another million may be sent to the country which has imported the excess, in order to buy up public securities; and supposing this latter country to be a great shipping nation, another million may be due to it for freights. Thus the equilibrium between the two countries would be restored, and there would be no adverse balance on either side; the indebtedness would be equal.

It may not be superfluous to examine some of these international transactions more in detail. As an instance, we may examine the force of foreign loans. Treating the subject, as is at present the case, with a view to the Foreign Exchanges, a foreign loan will tell against the balance, not of the country which receives the loan, but of that which supplies it.

The loan will certainly have ultimately to be repaid; but, at the time when it is contracted, it acts with the same force as an export upon the country which receives it, and with that of an import to the country which gives it. In fact, the borrowing country exports its securities, which

are imported by the capitalists who lend. The force of the axiom that, with regard to the balance of trade, to contract a foreign loan is equivalent to an increase of exportation, will subsequently be more fully felt when the correctives of an unfavorable exchange come to be discussed. It will be seen that when the indebtedness of a country becomes excessive and the liability cannot be liquidated either by shipments of bullion or by an increase of exportation, recourse is sometimes had to a loan in order to readjust the balance; the country exports public securities made for the purpose, when it has no other available resources left with which to satisfy its foreign creditors. Russia will furnish an illustration of this position.

Or, again, there may be a nation, rich in capital and very self-dependent, importing little, because it contains within its own limits most of its requirements, but exporting very largely. The tendency of such a country would be to become the creditor of all her neighbours. How is the balance to be restored? This case is the converse of the one just now considered; the indebtedness under the present hypothesis is not excessive, but under the mark; such a country often restores the equilibrium by becoming the specu-

lative purchaser and importer of loans and stocks and securities of all kinds; her manufactures are repaid by railway debentures, and the sums which other countries expend on the commodities with which she supplies them, she in her turn expends on the Stock Exchanges of foreign capitals. There is no doubt but what the balance of trade is immensely affected at such times, when any great speculative mania for foreign securities springs up. In the same way as the monetary position of a country may be endangered when it imports more foreign produce than the amount of its exportation, so may it be endangered by the undue purchase of foreign stocks, with the sole exception that the latter are often far more adapted for re-exportation than manufactured goods or produce, on which the charges of shipment or re-shipment are infinitely heavier.

It will appear from the foregoing observations that, when the relative indebtedness or the balance of trade between two countries is spoken of, the permanent debts of one country to another do not enter into consideration,—at least, not until the term of payment has arrived; the balance of trade depends upon the transactions which have to be settled, not upon those which by common

consent are held in abeyance for a long term of years. For instance, there is no doubt that the United States owe an enormous amount to England in the shape of American securities in the hands of English holders; but with the exception of the interest on these securities, this indebtedness, being one which does not require settlement, exercises hardly any influence on that other indebtedness which has been regulating (or rather disarranging) the exchanges between the two countries since the commencement of the year.

These securities are articles of commerce, previously imported by England, and when they were imported, they no doubt acted upon the exchanges equally with the cotton which came from the same quarter; and if they are re-exported to America (which is possible enough), they would again affect the exchanges in the contrary direction, with the same force as is exercised by cotton when it is re-exported to America in the shape of Manchester goods.

Otherwise, involving no immediate claim, they cannot be regarded as a set-off to the debts which we incur to the Americans for cotton and corn. The balance of trade may be entirely against England, though the amount of American secu-

rities in English hands should immensely exceed that balance.

The case of the coupons attached to such stock is very different. The interest which they bear is a constant and important feature in national indebtedness. It constitutes an immediate liability incurred by the borrowing country; it is expenditure in favour of a foreign creditor. A country which has large sums of interest to pay annually abroad, must import so much less or export so much more. Conversely, a rich country with a tendency to import too much, both of foreign produce and of foreign securities, receives some compensation in the annual collection of interest. It sets off these receipts against its excessive expenditure. It may look upon them as capital coming in against capital going out.

The large sums which England receives every year in payment of interest from foreign countries, reduces considerably the balance which, notwithstanding our enormous exportation, is almost always against us; the foreign loans negotiated in England increase her indebtedness at the time when they are contracted; but, by the annual revenue subsequently derived from them, her indebtedness is afterwards reduced.

The effect of profits and commissions on the mutual liabilities of nations is much the same as that which we have just described as exercised by interest. Among such profits, we may class the freights earned by the ships of different countries; the country which becomes the carrier for others, thereby establishes claims against them with which it can pay its importations from them. The charge for freight acts with the same force as a charge for a commodity actually produced and exported. An exclusively maritime country could discharge its obligations to other countries which supply it with necessaries, simply by becoming their carrier without exporting any produce or manufactures to them in return.

Or, again, a peculiarly favorable position may enable one nation to make others its debtors for various tributes and commissions, and thus to obtain a revenue equivalent to one consisting of interest, of freights, or of the proceeds of exported commodities. A country which, like England, mediates the transactions of many others, and, being the banking and mercantile centre of the world, is able to secure some slight commission or profit upon all the operations which it assists in conducting, derives no inconsiderable revenue from

this source. Formerly, when London was the great emporium of goods for foreign markets, and accordingly supplied the greater part of the Continent (which was itself in no direct trade with India or America) with cotton, coffee, sugar, tea,—in fact, with all the produce of the East and West Indies,—the commissions and profits on this mediation must have been very considerable, and have been an important element in the income secured to the nation from foreign sources. However, the tendency of the age, which is constantly bringing the producer and consumer into closer and more direct connexion by eliminating middle men and intermediate profits, is likewise exhibited in the fact that the Transatlantic or Indian producer is brought more and more into immediate connexion with the continental consumer. At present the continental shipowners and merchants make their importations from the producing countries direct, thus emancipating themselves from the London market, though not entirely from London banking facilities. The interest and commissions which are still paid by almost every country to English capitalists, certainly form a noticeable element in the revenue by which England is enabled to discharge her enormous foreign liabilities.

An allusion was cursorily made to the expenditure in travelling or residence abroad. Russia supplies the best illustration of the force of this expenditure. Several millions sterling are annually spent by the rich Russian nobility in travelling or in foreign residence, and the capital which is thus taken from Russia is lost precisely in the same manner as if it had been spent in Russia in importing commodities from abroad. The bills drawn by the travelling princes on their St. Petersburg bankers affect the exchanges precisely with the same force as bills drawn on St. Petersburg for the champagne sent thither from France. The liabilities incurred by foreign travel are peculiarly felt by Russia, in the first instance, because they are of themselves excessive; in the second, because independently of this expenditure, Russia consumes more than she produces.

There are many other international transactions which, in a complete summary of the items from which the so-called balance of trade is formed, might well deserve enumeration: for instance, import duties, or transit dues, and the whole range of Government imposts. But the consideration of the force of these charges belongs

to a different field of inquiry to that on which we are now employed. The expenses of armaments to distant regions, especially the regular expenditure of ships of war at foreign stations, also form an item in international indebtedness which should not be overlooked.

The preceding analysis of some of the more important elements may suffice to convey a general and intelligible notion of the different points to which attention should be directed, when a judgment as to the relative transactions between two nations, and the balance which they may ultimately present, is to be formed. The first and principal element no doubt is to be found in the comparative imports and exports in the literal sense of the term; but the operation of these transactions is so self-evident and generally understood that it has not been necessary to dilate much upon this portion of the subject. In addition to the consideration of the exports and imports, it has been shown to be requisite to measure the further expenditure of nations upon each other—including therein all national extravagance exhibited in the granting of foreign subsidies or loans and in keeping up costly armaments abroad, as well as all individual extrava-

gance, as displayed in excessive foreign travel or residence, or in speculations on foreign Stock Exchanges. On the other hand, it will be necessary to measure the force of national acquisitiveness in securing tributes, voluntary or involuntary, from other countries: and of individual enterprise in securing to itself, by superiority of position, capital, or activity, the larger share of the advantages of international commerce. To form a correct notion of the relative indebtedness of two given countries is, from the complexity of the facts, a most difficult task; but it is hoped that the principles on which the balance should be struck, and the class of facts which should be especially searched for and examined, have become sufficiently plain to the general reader in the course of the foregoing observations.

# CHAPTER III.

## EXAMINATION OF THE VARIOUS CLASSES OF FOREIGN BILLS IN WHICH INTERNATIONAL INDEBTEDNESS IS ULTIMATELY EMBODIED.

Having thus passed in review the different kinds of liabilities which nations incur towards each other, we are now led to consider the mode of adjustment of such debts and claims, and the instruments by which it is accomplished. Most international transactions are settled by a transfer of debts, through the medium of foreign bills of exchange, and for the general reader, (who has no opportunity of handling and examining the bills themselves, and of gaining, through their study, a knowledge of the various classes into which they may be divided, and the properties which attach to them,) some remarks on this portion of the subject may not be superfluous.

From the point of view of the Foreign Exchanges, it must be considered that the debts contracted between different nations are on the point of being closed. Practically, credit is given,

in the vast majority of cases, previously to the drawing of the bills or the transmission of the remittances which are to settle pending accounts. With this, however, we are at present not directly concerned, though a discussion on the Foreign Exchanges would not be complete without an allusion to the fact. The knowledge that there is a certain balance owing, for which credit is given, but which will ultimately be called in, acts, to a certain extent, upon the exchanges, just as in questions of supply and demand the knowledge that the supply may be indefinitely increased acts almost with the same force as actual present supply. But what we have now to deal with is the liquidation of debts which are becoming due,—in fact, liabilities for which the time of settlement has arrived.

The debts between different countries are, when they approach the time of settlement, embodied, as far as possible, in bills of exchange; they are invariably settled by bills of exchange, so far as the indebtedness of one country to others is covered by the liabilities of those countries to itself. It is certain that as far as accounts can be settled without the risk and expense of bullion remittances, through simple transfers, through the

creditors of any foreign country making a direct settlement with the debtors to that foreign country, and leaving their respective debtors and creditors to make a corresponding adjustment abroad, so far the use of bills of exchange is sure to extend. But how is the settlement to be effected when the claims on one side or the other are exhausted,—when there is a balance of debts to be paid without any equivalent of claims which might be set against them? It will subsequently be found that, by somewhat artificial arrangements, it is possible that even a portion of such a balance may be covered, at least for the time, by bills of exchange. But the consideration of this more complicated question must be deferred for the present. We have, in the first instance, to deal with such foreign bills as embody actual debts and claims, and represent an exchange—an exchange made between the drawer or seller of the bill and the purchaser of the bill; the former ceding his claim on a foreign debtor against payment on the spot, and the purchaser remitting the bill to another foreigner to whom he is himself indebted.

The majority of foreign bills of exchange carry (to an eye practised in deciphering their history) the evidence of their origin and nature written

upon them; and much may be learnt, both as regards international transactions generally, as also the peculiar features of the times, from a careful study of large miscellaneous parcels of bills. There will be found among them bills representing each of the different causes of indebtedness which have been described. The greater portion will represent exports of produce; and this will especially be found to be the case between countries which lie at great distances from each other, and whose transactions are comparatively simple; but the closer the countries, and the more they are connected in what may be called neighbourly relations, the more diversified and complicated are the transactions represented by bills of exchange. Between the Continent and England there is a very large proportion of bills which represent the expenditure of the foreign residents, drafts on their bankers at home, and encashments of dividends or other sources of revenue. There will be found innumerable bills based on the sales or purchases of stock, and large amounts which represent the transfer of capital from one country to another by way of giving effect to a public loan or a joint-stock undertaking. Such, for instance, were the drafts

issued from Constantinople on Monsieur Mirès against the proposed Turkish loan. Whenever the country which has secured a loan is importing more than it exports, and consequently has to make remittances to cover the balance, it will be convenient for it to draw upon the lending country for the amount of the loan thus contracted, as those who have remittances to make will be eager purchasers of such bills: in the contrary case, where there is no balance requiring settlement, a loan would probably be taken in specie.

Amongst any parcel of bills there will probably be some which are drawn against freights which have become payable,—a large item in those countries which have a great shipping interest, but otherwise little to export. Sweden or Norway, for instance, when they have remittances to make, have considerable difficulty in finding any other bills than such as are drawn either against wood (their chief article of export), or against the freights earned by their ships. They are hampered in their importations by the difficulty of making remittances in what are called "acknowledged first-class bills." There is, indeed, generally some peculiarity about the remittances from each dif-

ferent country: from the East Indies and China, where the chief articles of export are of great value, and where, from the necessity of large capitals for bringing such valuable produce to market, the transactions are more than elsewhere concentrated in great houses, the bills are generally drawn in large amounts and on first-class European firms: it is very usual to see bills of ten thousand pounds, and the character of the bills is generally exceedingly good; the distance between the two countries, and the length of credit which is accordingly given by the purchaser of the bill, make great caution necessary, and render it highly important that those on whom the bills are drawn should be persons of known repute.

From the Continent, on the other hand, the remittances received are generally of a very different character: from the frequency of transactions and the facility of communication, the bills are drawn in the greatest variety of form and in much smaller amounts. They represent daily and retail operations, as well as the great transactions of merchants and bankers. Any one receiving remittances from the interior of the Continent to the amount of ten or twenty

thousand pounds at a time, will find the sum made up of a very considerable number of little bills. There will be bills against cattle, against eggs, against butter, drafts of travelling Englishmen on their London bankers, bills against German toys, French nicknacks, wine, fruit, and vegetables. And as the transactions are now much carried on in a retail form, amongst bills on regular merchants and dealers, large and small, will be found also a very considerable number on persons whom it is difficult to find and difficult to rely on for payment when found; on agents who have persuaded German manufacturers to trust them with the disposal of their goods, and on branches of small foreign establishments who wish to try the London markets; also on shopkeepers and milliners, and others beyond the commercial circle—in fact, on every class whose business brings them in any way into connexion with the Continent.

The American bills are like the East Indian bills in some respects. Being generally based upon cotton, of which a small quantity costs a large sum, they are drawn in large amounts, and represent considerable mercantile transactions. But the trade between the United States and

Liverpool being much more rapid and easily managed than between England and India, and peculiar facilities for the conducting of the operations without capital on the part either of the exporter or importer being obtainable in the cotton trade, amongst much first-class American paper there is also to be found a considerable quantity drawn on firms not known beyond their immediate circle, and who have no means to pay their acceptances except by the identical produce which is consigned them against such drafts.

Thus far the bills which have been taken into consideration have been assumed to represent and close direct and *bonâ fide* transactions; but a large class of foreign bills perform very different functions, which it is important properly to appreciate. There is little mystery in the operations of the Foreign Exchanges when confined to the direct and immediate transactions of which we have been treating hitherto. The subject is complicated by the fact, that a very large proportion of bills represent indirect operations which it is less easy to follow, and that others do not represent any actual previous transaction whatever, at least in the sense of closing indebtedness, but act in a perfectly different manner.

In the first instance, we should enumerate those foreign bills which do not represent the usual indebtedness which is assumed to exist between the acceptor and drawer, but a debt due to the drawer by a third party residing in a third country, of which the acceptor merely mediates the payment. For instance, teas shipped from China to New York are generally paid for by a draft of the exporter on a London merchant for account of the American importer. The exporter in China is paid by the price which is given him for his bill on London; and the acceptor looks for payment to the importer in New York.

It is important to remember that this class of bills does not offer the same kind of evidence as others, as to the indebtedness of the country on which they are drawn; for the accepting country is a creditor of a third country for exactly the same amount as that which it must pay to the drawing country; and any estimate which might be attempted as to the liabilities of a country, based on the bills afloat upon it, which should omit the consideration of these acceptances for third accounts, would not fail to be erroneous. It is necessary at least to attempt to discover what proportion of the liabilities may have been in-

curred as by principals and what as by agents or mediators. For instance, if it should be desired, at any particular moment, to consider the relative indebtedness between England and the United States, it might be discovered that the sum total of the exports of the Americans to us, in the largest sense of the word, taking into consideration all the supplementary causes of indebtedness to which allusion has been made, exceeded all that they had taken from us, or spent on us, and that accordingly the balance must be remitted by us in gold; but an element of importance would be omitted if the question were not asked, How do the United States stand as regards their imports from the East? are there not large sums running upon England for American account, which they have still to remit? The answer to this question might considerably modify the result of the balance.

It is especially necessary not to overlook these indirect liabilities in the case of the bills upon England, as they form a very large item in the total of our acceptances.

Those to whom these questions are new, may not be able at first sight to discover the cause which still compels all other countries to make

London their banking centre;—why it is that in the East Indies those who ship produce to America draw on London and not on New York; and why the New Orleans cotton exporter draws on London instead of on St. Petersburg for the cotton shipped to Russia. A partial cause might be found in the credit granted by London bankers, and also in the greater reputation of the London houses, which, extending to all quarters of the globe, gives a bill on them quite a different value to that which could be assigned to bills on American and Russian bankers equally wealthy, but less widely known. But this can only be called a secondary reason, which appears on closer examination to be itself the result of the primary cause which makes England the great banking centre of the world. This primary cause is to be found in the stupendous and never-ceasing exports of England, which have for effect that every country in the world, being in constant receipt of English manufactures, is under the necessity of making remittances to pay for them either in produce, in bullion, or in bills, and therefore, if it diverts its produce to other countries, its bills drawn against such produce will be sure to find their way to England. In other words,

there will be a demand for bills on London bankers, and English bills will be more saleable than any others. There can be no exchange on any place to which remittances have not constantly and regularly to be made. And *vice versâ*, when remittances have to be regularly made, an exchange is soon established, and the mediation of a mutual centre is not required. For instance, England exports fabulous quantities of Manchester goods to the East, and silver into the bargain, receiving in exchange tea and silk. But suppose the tea and silk which England requires to be less in value than the merchandize exported. How can the balance be regulated? As follows:—The Americans export very little to China, but require more tea and silk from them than what they give them in goods; consequently, the Chinese have a surplus claim on New York. This they transfer to their English creditors, to whom they are indebted for the surplus value of the manufactured goods imported over their own produce shipped to England; in other words, they remit to their English creditors the bills drawn for American account, or instruct the Americans to send gold to England for the amount. The instance given is but an illustration; if the particular case is not entirely correct,

many others might be supplied in its place. That the imports of England exceed her exports, does not invalidate the present proposition; it is the universal diffusion of the products of English industry, which tends to produce the result described. England buys from, and sells to, almost every country in the world. Of other countries, A may import from B, but export to C; and if B and C are not in constant intercourse, A will not be able to pay B by giving him an assignment on C. However, A, B, and C are all commercially connected with England, and thus A can pay B by assigning to him a claim against England, which he himself has received in payment from C; or more simply, C draws a bill on England and remits it to A in payment, and A passes it on to B, who being in constant connexion with England, is in his turn easily able to use it.

As illustrations of the converse proposition, that, where between two countries a regular and constant interchange of imports and exports exists, an exchange is at once established, enabling transactions to be settled without the mediation of England, may be cited the cases of Java and Holland, of New York and Bremen, of Rio Janeiro and Hamburg. Formerly, when Germany was

farther behind England in her exports than she is at present, the New York houses paid themselves for their shipments of tobacco or other produce to Bremen, by drawing for Bremen account on England, and Bremen would settle the transaction by buying up and remitting to England the bills of the Holstein cattle-dealers or of the butter-exporters of the Low Countries. But now so many German manufactures are sent to the States, that there are always buyers for bills drawn on Bremen direct; or more simply, the tobacco and cotton shipped to Germany is paid for by German manufactures, and no further intervention is required. What becomes then of the cattle and butter bills, which are thus set free? These are still collected in Bremen and remitted to England, but against different transactions. The regular mutual intercourse established between New York and Germany does not yet exist between Germany and Bombay. Bombay as yet takes very little from Germany, the great bulk of her dealings being still with England; consequently the Bombay merchants, finding few purchasers for bills on Bremen, still draw on London for German account, when they ship cotton direct to the Continent, and a transaction takes place which in fact

amounts to this, that they direct their London creditors to obtain payment from their German debtors. Accordingly these latter have still to buy up all the bills upon England which they can find, as they require them in order to effect the payments they are instructed to make by their Bombay creditors to whom they are indebted for cotton. A very large proportion of the foreign bills afloat will, on a careful analysis, be discovered to represent adjustments of this kind; that is to say, not direct but indirect and intermediate settlements, in which London appears as the clearing-house of the world, where most international transactions are closed.

It remains to consider those foreign bills which represent no settlements of indebtedness at all,—bills which are technically said to be drawn in blank, by which the acceptor does not pay his debt to the drawer, but whereby, on the contrary, the drawer incurs a debt to the acceptor. The part which these bills play in all questions of the Foreign Exchanges is very considerable, and requires careful attention. A portion of them approach very nearly indeed to the character of what in the home trade are called accommodation bills; they may be drawn by merchants in one

country on merchants or bankers in another, in order to secure the use of the money which is paid as their price, for the time during which the bills have to run. The purchaser of the bills in this case takes the place of the discounter of accommodation paper, and the transactions may be perpetually renewed in the same way and with more facility than accommodation bills. But there is another function of bills drawn in blank and representing no actual transactions, which is little understood by the general public, but which, nevertheless, is in many cases very important and expedient.

It is very possible, and indeed probable, that the imports and exports of any country will not fall into the same period of the year; and that, consequently, the seasons when the imports have to be paid for will not coincide with the seasons when payment is exacted from foreign countries for the exports. In the case of a purely corn-growing country, for instance, the revenue derived from foreign countries will come in at the conclusion of the harvest, when the cargoes of corn begin to be despatched. There will then be bills drawn against these shipments on the countries to which they are directed. Meanwhile, however,

the country in question has been importing manufactures from its neighbours all the year round, and the importers have been requiring bills on foreign countries in order to make remittances, long before the corn-bills could be drawn and become available. If no other device could be found, the importers would, before the harvest-time, have to remit gold abroad in payment of their purchases; and afterwards the exporters, not being able to sell their bills, which the importers would now no longer want, would have to receive back the equivalent of their exports in remittances of gold from abroad. Thus the risk, the expense, and the reduction of circulation, which are consequent on repeated journeys of bullion, would be twice incurred, owing to the different seasons of the exports and imports of the same country. This difficulty is often avoided if the bankers in one country draw upon those in another, at the time when no actual commercial bills representing *bonâ fide* transactions can be bought, and subsequently square the liability which they have incurred towards the acceptors of their bills drawn in blank, by buying up and remitting the export-bills as soon as the goods have been shipped and are made available for drafts. Thus the importers

are able to procure bills from such banking houses at a time when otherwise they could buy no bills at all, and the exporters sell to the same bankers later on, at a time when otherwise they would find no purchasers, the importations having been previously paid for. The same object is often sought for and attained by the exporting houses receiving permission from those to whom they sell or consign their shipments, to draw bills in anticipation of the goods being actually despatched; in other words, to sell the bills at a time when there is a demand for them and when a premium may be given for them by the importing branch of the community, instead of waiting for the time when the bulk of the exports are despatched, and when consequently, from the number of those who have to draw bills, they only can be sold at a discount. Great complaints have been made in the Court of Bankruptcy, and in many quarters where the force of such transactions is not clearly understood, of what is called the system of blank credits; in other words, the system of drawing bills from abroad not representing at the time any actual settlement of indebtedness; and evidently for the reason that it is easy to confound such bills with accommodation paper. And it is true, that

wherever the existence of these blank credits has been brought before the public, it has generally been owing to some catastrophe where the bill-transactions actually were only undertaken with the intention of raising fictitious capital. But it will have been seen that blank credits may serve a legitimate and useful purpose, only requiring to be most jealously, and even suspiciously, watched. Those who are not versed in the various details of international banking transactions will have some difficulty in understanding, how foreign bills, representing mutual accommodation, and merely intended to raise a fictitious capital during the time which the bills have to run, may be distinguished from bills drawn to anticipate actual transactions, and to bridge over the interval which exists between a season of importation and a season of exportation; yet to a certain extent it is feasible, and quite as practicable, as it is to the discounting establishments at home to distinguish between legitimate and fictitious inland drafts. The system cannot be condemned because it is often abused,—certainly not, until it becomes evident that the abuses which follow in its wake are greater than the advantages which it secures.

For the present, however, it is not necessary to

inquire into the beneficial or pernicious results of these bills drawn in blank. They have simply to be enumerated as constantly forming a portion of the aggregate amount of foreign bills afloat, and as playing a peculiarly important part in affecting the Foreign Exchanges.

## CHAPTER IV.

### ENUMERATION OF THE VARIOUS ELEMENTS OF VALUE WHICH DETERMINE THE FLUCTUATIONS IN THE PRICES OF FOREIGN BILLS.

In the preceding chapters we have been engaged in considering the indebtedness which constitutes the subject-matter, and the bills of exchange which are the instruments, of international adjustments between country and country, of reciprocal payments between importers and exporters, creditors and debtors. We proceed to the more complicated question of the differences in the value of such bills of exchange, of the causes which determine and limit the extent of these differences, of the phenomena of which they are the index, and the measures by which they may be rectified.

The primary difference of value clearly arises, as was previously pointed out, either from the aggregate amount of the claims of any given country upon others exceeding the sum of her liabilities to them, or, *vice versâ*, falling short of that sum. In the first case, those who have bills to draw (whom for the sake of conciseness we will call the exporters, though the class embraces all those who have claims of any kind on foreign countries) will not find sufficient purchasers to take all their bills; for only those will buy who have debts abroad to settle, and these debts are by our hypothesis of less amount than the claims. Accordingly the exporters, competing with each other for the sale of the bills, will take less money for them than their nominal par value; that is to say, will sell them at a discount. In the second case, the importing class, those who have incurred liabilities to foreigners, having by our hypothesis larger remittances to make than the exporters can supply them with, bid against each other for such bills as may be got, and pay a premium to secure them. In both cases, what exporters and importers are seeking to avoid is the transmission of bullion, with all the sacrifices thereby entailed, and accordingly the extent of the premium or discount

which can be given is determined by the extent of these sacrifices. Let us suppose that importers foresee that the bills which they will be able to procure, will not suffice for all the payments which they have to make. They accordingly become aware that the balance will have to be remitted in bullion; and each individual, to avoid this necessity falling to his share, hastens to offer a slight premium to those who draw, in preference to running the risk of having to send bullion, on which he would have to pay freight and insurance, and lose interest besides. The premium may rise to within a fraction of a bullion remittance; nay, may even reach that actual point; because though the premium paid for the bill and the cost of the specie remittance were absolutely equal, it would still be more convenient to send the bill. Beyond this point the balance of trade cannot cause the premiums to rise; nor, on the other hand, can it cause the discount at which bills are sold ever to exceed the sacrifices which exporters would incur, if they found themselves obliged to instruct their foreign debtors to send them bullion, in consequence of bills upon them no longer being saleable. The time, however, when they would receive payment would, in this case, be an important con-

sideration. As long as the exporters can find purchasers for their bills, they get payment at once; but when they cannot dispose of their bills any more, they are not reimbursed for the value of their exports, till their equivalent is returned in gold. Accordingly each individual will submit to a sacrifice in order to sell his bills before the demand for them is exhausted and a discount is established; but the discount will not be greater than the estimate which the seller makes of the sacrifices which have been pointed out. The case may be briefly stated in figures, taking an instance from two commercial centres where the premium or discount paid on bills between them is not hidden or rendered more complicated by differences of currency, and where accordingly the par value is immediately plain. Let us take New Orleans and New York; for, though in the same country, their transactions together will be governed by the same principles as determine the adjustment of indebtedness between different countries. When the bills which have to be drawn from New Orleans on New York are equal in amount to the remittances which have to be made from the former to the latter—that is to say, when their mutual indebtedness is in a state of equilibrium—the seller of a bill for one hundred

dollars, payable at sight in New York (for differences in point of time, and consequently of interest, must at present be eliminated), will receive exactly one hundred dollars from the merchant who owes the amount in New York and must remit it. When, however, it becomes plain that a greater sum is due to New York than can be drawn against the claims of New Orleans upon that city, those who have to remit, hasten to pay a small premium to the drawers, and give them one hundred dollars and a half, because they fear that if they defer their purchases longer, they may be obliged to send gold, which might cost them one and a half dollar for each hundred dollars in freight and insurance. Thus the more it becomes evident that the stock of bills is insufficient, and the more the supply actually diminishes, the higher the premium rises, till the sellers are able to realize almost one and a half dollar profit. At this point the premium is so high, that remitters will become indifferent whether they buy bills or send gold, and some will despatch gold and others buy the bills, while the surplus which had to be remitted is gradually diminishing, owing to the gold which is sent. The exporters, becoming aware of this by being less pressed for their bills, begin to

lessen the premium in order to secure some profit before the demand is entirely satisfied; and consequently the price of bills begins to fall, the premium is reduced, and the exchange may soon be again at par, or below it. Conversely, when there are more bills than purchasers of them, the drawers, feeling that their export business may have to bear the charge of one and a half per cent. for bullion shipped to them from New York as returns, begin to sell at a discount long before that point is reached; a discount which can never fall lower than one and a half per cent., provided that the charges on bullion shipments do not exceed this figure. It is a clear deduction from these considerations, that the limits within which the exchanges may vary, (provided the bills are drawn at sight and in the same currency,) are, on the one extreme, the par value, plus the cost of the transmission of bullion; on the other extreme, the par value, minus this identical sum. Practically the exchanges rarely touch either extreme, but fluctuate between them, owing to the various measures and influences which are brought to bear upon the situation before the extreme case arrives, and which cause a reaction in the opposite direction.

There are occasions, however, when the exchanges sink and rise much below the specie point; and as this is not to be accounted for by the cause which we have been engaged in analysing, viz. a balance of indebtedness either in favour of, or against any given country, we must endeavour to discover others.

The recent fluctuations in the rates of exchange in the United States, reaching far below the specie point, furnish us with a suitable instance for such investigation.

The balance of trade had been clearly in favour of America; the very considerable exports of grain and flour, coupled with a reduction of imports, in consequence of political apprehensions, established a surplus of claims on foreign countries over the debts due to them. Accordingly it was natural that the exchanges should fall to specie point; but the fact was, they fell much below it. How is this to be accounted for?

The reason must be sought in the peculiarly urgent necessity under which the exporters found themselves, of selling their bills immediately, at any sacrifice. It was a question of time. Three or four per cent. were sacrificed to secure the proceeds of the bills on England at once,

instead of waiting for the arrival of gold. The exporter had two courses before him,—either to sell his bills at what they would fetch, or to send them himself to Europe, with instructions to his correspondents to encash them and remit the amount in bullion. The latter course was cheaper, but as he required funds immediately, (or, under the influence of panic, believed that he would thus require them,) he adopted the former.

In ordinary times there would have existed a certain competition on the part of capitalists to buy up the drafts of urgent sellers, in order to remit them to Europe for their own account, so as to secure the profit between the low price paid for the bills and their specie value; that is to say, to buy at a heavy discount, much below specie point, in order subsequently to realize at least the specie value (which we have seen to be the par value, minus the charges on the bullion remittance). But at a time of commercial panic, such capitalists are seldom willing to launch out into a speculation which deprives them, during the weeks which must elapse before the gold arrives, of the command over their funds. They may fancy that during that interval the rate of interest may rise to such a height as to neutralize the antici-

pated profit. For instance, let us suppose that they expected to gain one and a half per cent. net on the exchange: in their calculation they must have taken into account the interest they would lose from the time when they paid the drawer for his bill up to the moment when the returns in gold arrive. The amount of interest on this interval, which we will call a month, they may have calculated at six per cent. per annum, or one half per cent. for the month. Now, if the rate of interest should suddenly rise to twenty-four per cent. per annum, they would have to borrow money at the rate of two per cent. for the month, in order to replace that portion of their capital which is travelling to Europe and back; that is to say, one and a half per cent. more than they had calculated on; and accordingly, that being their estimated profit, they would gain nothing on their exchange operation. We accordingly may conclude that what is technically called a stringent money-market, acts materially upon the exchanges, inducing sellers to force sales, and creating a reluctance on the part of purchasers to buy unless absolutely compelled to remit. This cause will, however, not come forcibly into operation when the international transactions are in a state of equilibrium;

for then there will be as many purchasers on compulsion as there are sellers, and the dearness of money may only operate so far as to induce purchasers to defer their remittances to the last moment, whereas sellers would wish that they should be hastened. Its full force will be felt at a time when the country where money is supposed to be dear, or where panic exists, has exported more than it has imported, and when it is accordingly certain that gold will finally have to be ordered, while no individual is himself willing to wait for its arrival. It is seldom, however, that this peculiar contingency will occur; as, generally, the money-market in such a country as has taken less from other countries than it has given to them, is particularly well supplied with surplus capital.

There are, however, further causes which determine the fluctuations in the rates of exchange. We have hitherto, in order to obtain a clear view of the first leading principles, considered all bills as drawn payable at sight; but, practically, an immense majority are drawn payable at various periods after the date of their issue or first presentation to the acceptors, giving rise respectively to the expressions, payable at so many days

after date, or so many days after sight. Thus, two new elements of value are introduced which will affect the rate of exchange. In the first place, the consideration as to what deduction should be made from the price, in consequence of the bill which is bought for ready money not being itself payable till after a certain time; and, secondly, as to the security which the purchaser of the bill can feel that the drawer and acceptor of the bill will continue solvent till it becomes due. Thus, the state of credit in both countries, and the rate of interest in that country whither the bill is remitted, likewise become determining elements in the rate of exchange.

It has been shown that the state of the money-market in the country where the bill is drawn, affects the exchange, as it renders the seller more eager and the purchaser more reluctant; and, as one or the other must calculate the loss of interest which must ensue till the proceeds of the bills reach their hands, this loss of interest will be at the rate established in their own money-market at home: but when any bills other than such as are payable at once, form the subject of bargain, the buyer must further consider what is the rate of interest in the country on which the bills are drawn. If he owes money abroad, he will be paying interest to

his foreign creditor at the foreign rate, and this interest will not cease till his remittance becomes due. Accordingly, it will make a difference to him of two months' interest at the foreign rate, whether the bill which he purchases as a remittance is drawn payable at once, or sixty days after its arrival; and as the foreign interest rises, he will insist on paying less for the sixty-day bill, whereas, if it falls, he can afford to pay more. A heavier deduction must be made from the price in the first instance than in the second. Or, in the case of the capitalists who buy up bills at a time of pressure in order to send them abroad and have them converted into gold, their foreign correspondents will have to discount the long bills for them, and the amount of this discount affects their profits. If they fear the rate of interest in the country on which the bills are drawn will be high, they pay so much less for the bills; if they anticipate cheap rates, they pay so much the more. Without any doubt, the New York capitalists, who suffered the price of bills upon England to sink three and four per cent. below the specie point, were influenced by a natural anxiety as to the rate which they would have to pay in England for the discount of their sixty-day remittances.

In the rates of exchange for all bills other than bills at sight, there is no element of value so constant and so effective as the rate of interest in the country on which the bill is drawn. The fluctuation in bills at sight are limited, to a certain extent, by what we have called the specie point: they can exceed the specie limit either upwards or downwards for a time; but, be it remarked, only when the two countries are at a considerable distance from each other, so that specie cannot be rapidly sent to and fro, and when immediate returns become a matter of importance; in fact, only under very extraordinary circumstances.

The fluctuations in long bills, on the other hand, are unlimited, because they are co-extensive with the fluctuations in the value of money in the accepting country, and co-extensive, too, with the apprehensions which may be felt as to the solvency of the names on the bills. Of the power of affecting the exchanges by prompt action in raising the rate of interest, it will be proper to speak at greater length when the correctives of what is called an adverse state of the exchanges are considered.

The extent to which the solvency and credit of the drawer, as well as of the acceptor, of a bill,

affects the value of that bill, and consequently the rate of exchange at which it will sell, does not require much elucidation. Firms of first-rate standing are said, in technical language, to "make the best exchanges." The price which is paid to a merchant of undoubted position for his sixty days' sight bill on a foreign country, will be higher than that which is granted for a second-rate bill on the same place. The purchasers of bills must be induced, by a concession in price, to take an article of less certain value. They must be indemnified for the greater risk. Credit is a very important element to be considered in the rate of exchange; and so notorious is this amongst those engaged in international trade, that the price at which exporting houses can sell their foreign bills, is looked upon as an unerring test of the credit which they enjoy among their neighbours. Credit thus causes a difference in the value even of such foreign bills as are drawn on the same day, and makes it difficult to give any exact or definite quotation of the price of long-dated paper; but, further, it operates on exchanges generally in times of commercial panic or excitement, and causes the prices of all bills to fall. During the late events in the States, doubtless the pur-

chasers of bills considered it necessary to indemnify themselves by a large discount for the risks which they thought they ran: either the bills might not be accepted at all, in consequence of the goods against which they were drawn falling enormously in value, and the drawers, to whom the purchaser would have to look for the refunding of the value, might have failed in the interim; or, the bills might have been accepted, but not be paid at maturity, owing to the difficulties in which it was expected that all connected with America would be involved.

Thus, too, when a whole nation falls into discredit, it is difficult to sell bills upon it, and large concessions must be made in consequence. It is felt that little security can be placed in the acceptor. The purchaser has then only the security of the drawer, and not, as is otherwise the case, of the drawer and acceptor jointly. However, this argument cannot be pushed very far, as, generally speaking, when a whole country is in discredit, there are many other influences at work to lower the value of bills upon it, and it is not easy to separate to what extent the different causes have respectively operated; how much, for instance, is due to an adverse balance of trade and excessive

indebtedness, how much to loss of credit, and how much to a further element of value which we have still to examine,—the depreciation of the currency.

It will be remembered that the basis of a settlement through a bill of exchange, is the payment of a sum of money in one place, in order to receive the equivalent at another. The purchase of a bill on France, consists in the paying a certain amount in sterling money to a merchant trading with France, against his giving an assignment for the same value on a French merchant. Hitherto, all that has been said has been applicable to all countries equally. The principles which have been examined would exist, and be in constant operation, even if a universal currency had been adopted, and the perplexing calculations between francs and florins, and dollars and roubles, were no longer necessary. But now we have to deal with the actual fact, that when an exchange of a given sum in London for the same sum in Vienna or St. Petersburg has to be made, it is excessively difficult to ascertain what may be called the par value. When there is a gold currency in both countries, the calculation is comparatively easy; though, if there is a large paper currency side by side with the gold,

the problem becomes somewhat more difficult. Between two countries of which the one has a gold, and the other a silver currency, it is a still more complicated question; while all reliable results become hopeless when either of the two countries has an unlimited or inconvertible paper currency. Given one hundred pound sterling in London: what is the value of these hundred pounds in Vienna? What are the laws which will govern the exchanges in this case? Applying experimentally the principles which we have previously examined, they apparently break down here. The fluctuations in the prices of foreign bills have been exhibited hitherto as confined within certain limits, subject indeed, within these limits, to the ordinary laws of supply and demand, but unable to rise or fall beyond the indicated boundary, except under extraordinary circumstances. If the drawers were more numerous than such as had to remit—that is to say, if the creditors of any given country were more numerous than the debtors—it was difficult to sell bills on such a country, and the sellers had to make a sacrifice. On the opposite hypothesis, the buyers were mulcted in a premium. But in either case, the sacrifice could not materially

extend beyond the loss which would accrue directly and indirectly in the transmission of bullion. If he who has money to claim abroad, cannot draw and sell a bill against the amount to advantage, rather than submit to a sacrifice beyond the limit indicated, he will instruct his foreign debtor to send him gold. So, if he who owes money to merchants abroad, cannot buy a bill except at a loss greater than the expense of sending bullion in payment, he will naturally at once adopt the latter plan. But what is to be done in either case, if the country, on which we suppose the bills to be drawn, has an unlimited paper currency, with no bullion at all representing it? or, if bullion cannot be thence obtained except at an enormous premium? or, if the export of bullion is prohibited altogether, or if it be illegal to give or take a premium on gold? It seems evident at once, that the limits previously placed for the fluctuations of exchanges are, under most of these hypotheses, removed altogether. As the creditor of such a country loses the alternative of being able to obtain gold in payment of his claim, there is no limit to the sacrifice which he may be compelled to make, in order to sell his bill, except in the competition of those who may require to pur-

chase it. Similarly, if, as is very unlikely in the case of a country with a depreciated currency, its foreign debtors should be more numerous than its foreign creditors, so that the demand for bills upon it would exceed the supply, the debtors (being deprived of the alternative of sending a specie remittance, by the fact that gold, though enhanced in value like everything else by the depreciation of the currency, still is prohibited from commanding in the country in question its legitimate premium) will have to pay the price demanded by the sellers of bills, the price being apparently only limited by the competition of sellers. However, on closer inspection, it will be found that a kind of limit, similar in nature to that which has been pointed out, is, after all, in operation; and it will be possible to discern it when the case of a country in which there is a depreciated currency, but in which a premium on gold is regularly established and is not restricted by artificial means, has been examined. It will appear that, in this latter case, we shall not be far wrong if we add the premium commanded by gold in the depreciated currency to the expenses which are incurred by the creditors of such a country, if, when recovering their claim, they send for the gold instead of selling bills, or, in the opposite

case of the debtors, make a corresponding deduction. If the latter, rather than pay an extravagant price for the bills which they wish to purchase and remit, go to the expense of sending bullion, the premium which they will obtain on such bullion will naturally go in reduction of the expenses incurred. This will accordingly give them a great advantage over the sellers; in other words, over the creditors of the country in question.

The consideration of the various cases under examination, from the two opposite points of view of the drawers and purchasers of bills respectively, tends to embarrass the course of the argument, but cannot be avoided entirely. When in the course of the discussion the case only of one class is considered, it is highly desirable that the reader should himself clearly realize the converse proposition, and consider the results from the opposite point of view.

In propounding the fact, that the fluctuations in the prices of bills on a country, where the currency is depreciated, are governed, not only by all those elements of value previously considered, but to a much greater degree by the premium on bullion as compared with the depreciated currency, we are stating the final result rather than

the process by which this position is reached—the ultimate limit, rather than the gradual development. We shall arrive at the same conclusion by the following reasoning, in which more prominence is given to the depreciation of the paper circulation than to the premium on bullion, which, however, in reality is almost identical with it. Practically, the idea of the premium on bullion, though more easily and clearly intelligible in theory, rises less to the surface than the depreciation, or smaller purchasing power, of its paper competitor.

For, in a country where there is a large and inconvertible paper currency, the precious metals tend to recede from their more important function as the circulating medium, while their character of ordinary merchandize comes out into stronger relief. Another currency existing, with which they are by no means identical, they no longer constitute the standard, but themselves become subject to another standard. Accordingly, when, owing to this new standard, the prices of all merchandize begin to fluctuate, bullion is subject to the same influences; and when, through the over-issue of paper money, a general rise of prices ensues, the price of gold, as measured by paper

money, rises with the rest. Thus, supposing the Austrian Government to be constantly depreciating the Austrian currency by issues of paper money, the value of gold in Austria will be constantly rising, and one hundred English sovereigns will be worth so many more Austrian paper florins. Those who purchase a bill on Vienna will, accordingly, in such circumstances require a better exchange; they who have bills on Vienna to sell, that is to say, to whom a certain sum of florins is due in Austria, will have to throw in so many more florins, in order to induce the buyers to give them gold for the depreciated article. And why? Because, otherwise, the buyer who is going to remit would do better to send the gold itself. Just as an English traveller in Austria will at such a time obtain fifteen florins instead of ten for his sovereign, so will those who pay sovereigns for florins on the London Exchange, require the same favorable terms. We have thus discovered an influence which apparently affects the fluctuation in the Foreign Exchanges far more powerfully than any previously discussed;—interest of money, an adverse balance of trade, panic, distance, and so forth, practically cause the exchanges to vary within a few per cents.; a variation of ten per cent.,

owing to all these circumstances combined, is considered something extraordinary, and only occurs under rare combinations; but, as soon as the element of currency is introduced, we have had at once an instance before us in the Vienna exchange of a variation of 50 per cent. So in the Russian exchanges, owing to the enormous amount of paper money afloat, which is practically inconvertible, the most violent fluctuations are constantly occurring.

But in a certain sense these fluctuations are apparent, and do not involve the same gain or loss, the same difference in value, as those alluded to above. As the depreciation in currency affects, generally speaking, all prices alike, the fifteen florins bought by the Englishman for his sovereign are not worth more to him than the ten which he bought for the same money before. When the fluctuations were determined, simply by the balance of trade (within the limits of the specie point upon either extreme), the purchaser, when he bought cheap—that is to say, when he obtained a greater sum than usual in foreign coin for his own money—secured an actual advantage; this greater sum of foreign coin had an actual greater purchasing power. But where the depres-

sion is caused by the depreciation of the foreign currency, he has no advantage, for the purchasing power of the nominally larger sum is not greater than that of the smaller.

Again, while the purchaser of the bill has been shown to have no advantage, so neither, after the new standard of exchange is established, has the seller any loss; it is true that he will be under the necessity of ceding a greater number of florins for the sovereign which the buyer pays him; but the produce which he has sent abroad, against which he draws, will, under our present hypothesis, have risen in value in the same proportion, and therefore yield him a proportionately greater number of florins, for which he can draw. For instance, before any great fluctuation, he exported a certain quantity of sugar, and sold his drafts against this sugar for a certain price: let us suppose him to have sold the sugar for 10,000 florins, and to have sold these florins at the rate of ten to the pound. He would thus realize £1,000 for his sugar. A fluctuation of ten per cent. now occurs, owing to an over-issue of paper in Austria. Prices generally rise ten per cent., and the exchanges rise also. The same foreign merchant now sells his sugar for 11,000 florins, but he

must sell his florins at the rate of eleven to the pound, thus realizing £1,000, precisely as before. It is scarcely necessary to observe that in assuming a general equal rise in prices, it is not intended to express an opinion that such an event could actually occur. Some prices will rise much more than others, according to the well-known principles of political economy relative to this subject. In Austria the manufacturers insist on having made considerable profits by the depreciation of the currency, as the cost of labour has not risen in the same proportion as the manufactured goods. The raw material being imported from abroad has risen to the full extent at once; and this has enabled the manufacturers to increase the price paid for their products in the same ratio, though one element of production, labour, has so far remained stationary. But this can only be temporary. The adjustment must take place sooner or later; and if the demand for labour remains the same as before, wages will rise till they command the same amount of the labourer's necessaries, as before. As far as the force of the previous argument is concerned, the assumption of a general equal rise of prices is admissible, and it will appear that the apparent fluctuation in the

exchanges extends no further than the apparent increase of value which has resulted from the same cause. A parcel of manufactured goods commands more florins, and an English sovereign commands more florins also; but neither in the one case nor in the other has any greater purchasing power been acquired.

Hitherto the comparison has been instituted between a transaction before any given fluctuation and a transaction after it; and it appears that the difference in the exchange, when it has been caused by the depreciation of currency, does not give rise to any difference of result. However, it will be seen at once that the very opposite is the fact, when the fluctuation is not supposed to occur between two different transactions, but between the beginning and the end of the same operation. Suppose the exporter of sugar to have shipped his sugar first, and to have sold it, as assumed before, for 10,000 florins, the exchange being at the time ten florins to the pound. However, he defers his drafts against these 10,000 florins for some time, and, in the interval, the rate of exchange changes to eleven florins to the pound, as in the previous case. Accordingly, his florins, having to be divided by 11, only realize nine hundred and nine pounds odd,

instead of the thousand, which the former exchange would have given him. In fact, a fluctuation in the exchange, produced by a depreciation of the currency, makes the existing claims on a country in such a situation worth so much less, whereas all debts due to it can be so much more advantageously discharged: the creditor of the country loses and its debtor gains. If its imports and exports were in a state of equilibrium, that is to say, if it owed as much as it had to claim, there would, on the aggregate of transaction, be neither loss nor gain resulting from the apparent fluctuation, but the individual creditor of the country might consider himself robbed, and the individual debtor might rejoice that, when proceeding to discharge his liabilities, he was able, for the same sovereign, which previously would buy only ten florins, now to purchase eleven.

The examination of the nature and tendency of the fluctuations just described, serves to lead us conclusively enough to their limit, which is the special object of our present investigation. The bills on a given country fluctuate in value, in proportion to the extent to which the prices of all purchaseable articles—bullion included—are

raised by the depreciation of the currency; in other words, in proportion to the discount of the paper money, or the premium on gold. Beyond that proportion, the fact of the depreciation of the currency will not cause them to deviate; for otherwise the creditor of any sum which is payable in the inferior money, rather than submit to a further sacrifice in the exchange, would request his debtor to send him gold for the amount of his debt, notwithstanding the premium upon it, as under the hypothesis such a premium would be less than the loss entailed in settling the transaction by the sale of a bill.

What, however, will be the case if the export of bullion from the country, where the depreciated currency exists, is prohibited? or if it is impossible to buy up gold, either because it is illegal to pay a premium, or because all bullion has actually disappeared?—And these are the more frequent cases which, in practice, arise. How is the holder of a claim on such a country to encash that which is due to him? Let us suppose the case of a merchant who has supplied Russia with cotton. How is he to exact payment? When the cotton is sold, he is entitled to a certain amount of roubles in St. Petersburg; but, the export of bullion

from Russia being practically prohibited, how is he to convert those roubles into English sovereigns? Or, putting the case otherwise: a Russian spinner has imported the cotton, and owes the amount thereof in English sovereigns to a merchant in Liverpool. He has roubles sufficient in his hands in paper money, but what steps is he to take to procure sovereigns for them? Being barred from sending bullion, he has only two courses open, —either to buy a bill on England from others who happen to have sent produce thither, and thus have a claim on an English house, which he can buy and transfer to his Liverpool creditor; or, to send the produce, which will sell for sovereigns, himself. When there is a pause in exportation, as is the case during a large portion of the winter season in Russia, he would be absolutely unable to send any remittances at all, unless he could find bankers or others who might draw on England, or on some other foreign banking centre, in anticipation of future exports, and would sell him the bills. But it will be apparent, that as to price, he is entirely in their hands. If, as is often the case, such Russians as are indebted to foreigners are bound at any cost to place funds in English money into the hands of their creditors by a

given day, there seems no limit to the price which may be enacted from them—in other words, no limit to the fluctuations in the exchange. The relative value of their paper roubles to bullion seems not to enter into the question at all. Supply and demand alone determine the price. And if the exports of such a country do not equal the imports (as is almost invariably the case), so that the demand for bills to pay for the imports exceeds the quantity of bills which is supplied by the exports, the balance which the country has to pay can only be settled by an enormous sacrifice, —in fact, cannot be settled at all except by a cessation or diminution of imports, or by a foreign loan, the latter being only an expedient to gain time and an adjournment of the payment of the adverse balance.

It will be easily seen why it is possible to assume that a country in which a depreciated currency and a prohibition to export bullion exist, is likely to be importing more than it is exporting. If it were otherwise—if its exports exceeded its imports—bullion would be flowing towards it; other countries would be paying part of their debts to it in gold, and no grounds for a prohibition of the export of bullion would have existed.

The currency, too, would be in the course of improvement, and not of depreciation. Probably there are as many cases in which depreciation of the currency is, directly or indirectly, the consequence of excessive importations, as in which it is due solely to the errors and bankruptcy of Governments. Often, both influences are combined, taking alternately the position of cause and effect. Sometimes Governments, simply for their own purposes, issue a quantity of paper money: the natural consequence will be over-importation; prices will rise in consequence of the increase in circulation, and accordingly attract commodities from other markets, while the exports, having risen also, will be less easy of sale abroad. Or, over-importation takes place in the first instance, and Governments, in order to remedy artificially and apparently what can only actually be remedied by the cessation of the real primary cause, commit the fatal error of increasing the circulation by an issue of paper money. They think thus to increase the means of paying the debts which are being incurred, but the only effect is, still further to increase the evil, as importation, instead of being checked, is fostered by such a plan. When, during the period of apprehension caused

by the large efflux of gold from England to America, views were expressed in Manchester and Liverpool, that a much larger issue of bank-notes ought to be permitted, this opinion tended manifestly to a depreciation of our currency. The consequence of the depreciation of the currency in any country being to tempt to further importation, by creating apparent high prices, and at the same time to increase the difficulty of paying for such importations, how is the final balance to be paid? The efflux of specie shows that the balance of trade is against that country for the time; the equilibrium must be restored by slackening importation and consumption.

We were led to these somewhat premature reflections regarding the result of an over-issue of paper money and over-importation, by the consideration of the position of such debtors to foreign countries as were prohibited, either by the actual absence of bullion or by legal enactments, from making specie remittances, and were therefore entirely at the mercy of such as had drafts on other conntries to sell—their only resource being, in case they were met by prices too exorbitant, to buy produce and send it themselves. The fluctuations in the exchanges in these cases will

depend entirely on supply and demand; and, if the demand for bills exceeds the supply, there is theoretically no limit whatever to the price of bills.

It may, however, be asked what will be the general range of the exchanges in such a case, if the importations and exportations are, for a time, in a state of equilibrium? What would be the natural value in sterling money, at such a time, of a bill on St. Petersburg, payable in roubles? The natural value at such a time seems to be, not the nominal par of exchange, not the value of the rouble when it was convertible and was in reality a silver coin, but this value minus the depreciation which the rouble has suffered in Russia itself. If the currency in Russia, owing to the enormous amount of paper money afloat and the notoriously insufficient stock of bullion to meet it, has actually —though perhaps unconsciously to the Russians themselves — depreciated 5 per cent., then we apprehend the natural value of the rouble in sterling money to be 5 per cent. below the nominal par of exchange; but it cannot be too often repeated that no calculation can be founded upon this proposition, as practically there is never an equality between the exportations and importations; and an

increasing adverse balance lowers more and more the value of what, in this case, we have called the rouble.

Such seem to be the general principles which regulate the fluctuations of the exchanges in such cases where bills are sold payable in a depreciated currency. The treatment of the subject would not be complete without considering the case as between silver and gold. When a bill on Hamburg, payable in silver, is bought in London for a certain price, payable in sovereigns, what will determine the value?

We shall arrive at this value by a similar process of reasoning as determined the previous case. Either gold and silver will be at what may be called the par value between the two, or, as is more generally the fact, the one will be at a premium as compared with the other. With the exception of France, which, with its double standard, is subject to somewhat different influences, gold is simply merchandize in such countries as have a silver currency, and silver is merchandize in such countries as have a gold standard; and according to the price of the merchandize at a given moment, so will the exchanges fluctuate. When a bill on Hamburg

is to be sold in London, all the previous elements of value will have to be taken into consideration—the rate of interest in the two countries, the state of credit, relative indebtedness, and so forth: but the value of silver in England will enter largely into consideration, or, in the opposite case, the value of gold in Hamburg. When there is a great demand for silver in England, as is the case when large shipments are to be made to the East, there will be a great demand for bills upon Hamburg; for one means of procuring silver will be to buy up such bills as entitle the purchaser to a certain amount of silver in Hamburg, and to send these bills for encashment, with instructions that the silver thus encashed is to be actually shipped to England. Thus, if silver is at a premium in England, those who have claims on Hamburg are able to exact this premium from the purchasers of their claims by raising the price of their bills; that is to say, the buyer will have to pay more sterling money for the same amount of "marks banco," or, what comes to the same thing, he will receive less marks for his pound sterling. If, when silver is not at a premium, he receives thirteen marks and a quarter for his sovereign, as the price of silver rises he will receive less; for instance, only thirteen marks

and an eighth: and the exchange on Hamburg being expressed by the number of marks banco which are to be had for a pound, the exchange on Hamburg will be said to have fallen; the fact, however, being clearly that bills on Hamburg have risen in price, a less amount of marks commanding the same amount of gold. Conversely, supposing the case of a Hamburg merchant who wishes to procure gold for any purpose whatever—let us say for the purpose of sending it to America to buy cotton therewith,—bills on London will serve his purpose, as they entitle him to an amount of that metal which he requires; and if there is competition for such bills, owing to a general demand for gold for the object indicated, those who have bills upon London will be able to exact a premium for them, and in this case more marks banco will be demanded for every pound which is placed at the disposal of the purchaser of the bills in London; accordingly, the Hamburg exchange will rise, and thirteen marks and a half may be given for the pound. The limit of the fluctuation is, however, easily discernible, and will be found to correspond exactly with that which was discovered in the case of two countries, one of which had a metallic currency and the other a depreciated currency, with a premium permissible

on gold. The limit will be the extent of premium obtainable. If the holders of bills on London, in the case last put, exact too many marks, those who are desirous of purchasing gold will find their advantage in sending the silver itself over to England, and selling it there for gold; or if the English merchants, who desire to ship silver to the East, find that the price demanded by such as have bills on Hamburg to sell, is out of proportion to the existing premium on silver, they will either pay that premium for such silver as may be procurable elsewhere, or they will send gold to Hamburg, sell it there at the discount at which gold will stand in Hamburg under the circumstances, and have the proceeds invested in silver and shipped over to them. The assumption necessary for the argument is, that a sale of gold is always possible in Hamburg, and a sale of silver possible in England; the price may, in either case, sometimes be exceedingly low, and the premium on the other metal accordingly be a heavy charg to the purchaser; but the sale may gener assumed to be possible, and thus def of the fluctuations in the rates

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had their origin in the obligation of certain merchants to possess themselves of that one of the two precious metals which did not constitute the currency of their own country, and in their endeavours to obtain it by buying bills on such countries where it formed the standard. The truth of the proposition is, however, quite as self-evident if we confine ourselves, as before, to the case of debtors and creditors. An English merchant owes a certain amount of Hamburg money; that is to say, an amount which he is bound to pay in silver. Silver, let us suppose, is, when his debt becomes due, considerably dearer than usual in England. The amount of the difference he will be compelled to pay, either by purchasing silver in the English market at the enhanced price and shipping it to Hamburg, or by buying a bill on Hamburg, payable in marks, at an unfavorable exchange. The price of silver having risen, the price of bills payable in silver rises also, and the purchaser will [illegible] fewer marks for his pound; but if the [illegible] were to ask a greater difference [illegible]

fluctuations in the rates of exchange which may result from the difference in value between gold and silver is clearly and easily established.

The case of transactions between two countries like England and France, of which one has a gold currency and the other a currency of gold and silver combined, offers no difficulty whatever. The fluctuations in the prices of bills of one upon the other cannot, except under a most rare and almost impossible combination of circumstances, exceed the limits of such variations as can exist between two countries having the same currency: they will be determined by that which is common to both of them ; that is to say, by gold. How can a bill on Paris, payable on demand, be sold at a higher value than that of the gold which it represents, plus the expenses and commissions incurred in sending that gold to Paris? For, if a higher price were asked, it would be cheaper to send gold itself.

It is clear that, as soon as a premium is paid in any country on gold or silver, this premium will increase the value of bills which are payable in that particular metal; but it is necessary that no option should be left. If a bill on Paris is payable either in napoleons or in silver five franc-pieces, it will be

sure to be paid in that coin which is least in demand, in that which is at a discount as compared with the other. Thus, the purchaser of such a bill will not allow the price to be enhanced by the existence of a premium on one portion of the currency. The fluctuations in the rates of exchange will be as strictly limited as they were shown to be when the currencies of any two countries were practically identical.

In concluding this portion of the subject, it is necessary to remark once more that no stress should be laid on any of the special cases selected as illustrations being correct in fact. It is rather the mode in which the question should be handled and the principles on which reliance should be placed when any particular instance is to be analysed and examined, which the present treatise endeavours to evolve. For this purpose the different elements of value which enter into consideration in the sale of foreign bills, have been dwelt upon at some length; but the proportion in which they stand to each other in any particular case, and the details which must be studied in considering how far the currency of one country coincides with or varies from the currency of another, do not fall within the scope of this inquiry.

# CHAPTER V.

## REMARKS ON THE INTERPRETATION OF THE FOREIGN EXCHANGES.

In the preceding chapters we have been occupied in tracing the origin and development of the transactions which result in the Foreign Exchanges from their simplest to their more complicated forms, with the special object of discovering the various causes which combine to produce constant and important fluctuations in the prices of foreign bills. Having gained a theoretical insight into the principles of the system, we are now in a position to approach the more practical and interesting portion of the subject, and to examine it in its direct bearing upon commerce in general. Being acquainted with the influences which are proved to determine the fluctuations in question, we are enabled, by a reverse process, to argue back from them to the existence of their determining causes, and to consider the Foreign Exchanges in

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their peculiarly valuable character as an unerring mercantile and monetary barometer. But they are more than this. Not only do they offer to the trading community the means of ascertaining the state of the commercial atmosphere—indicating when the air is charged with a storm, or when fair weather is likely to set in,—they so clearly point to the disturbing causes that their study and due comprehension suggest the necessary remedy, and prevent the application of hasty and empirical measures.

The general feeling with regard to the function of the exchanges, as giving evidence as to the mercantile (or rather monetary) situation of any country, is indicated by the usual phrase of a "favorable" or "unfavorable state of the exchanges," a phrase which occurs so frequently in all banking discussions that it cannot be passed over without remark. Of its inaccuracy, in so far as it enters into the domain of political economy and applies to the general prosperity of the country, it is not necessary to speak. It may originally have implied the erroneous theory that the object of commerce is to attract gold, and that that country towards which the tide of bullion sets with the greatest force is *ipso facto* the most prosperous; that, accordingly, a

position of the exchanges which points to an influx of specie is favorable, whereas, when bills become so scarce that the precious metals must be exported, the situation is eminently unfavorable. Or, it may point rather to the banking view, and express the natural feeling that to owe more than is coming in is to be in an unfavorable position; and that consequently when the prices of foreign bills indicate that a nation has more remittances to make to others than others have to make to itself, the situation of the exchanges may be called unfavorable, whereas the opposite is the fact when they indicate a surplus of claims over debts. Whatever may be the original view which gave rise to the phrase, there is no discrepancy as to the mode in which it is used, or the class of facts which it denotes. When it is said that the exchanges are favorable to any particular country, the intention is to state the fact that bills of that country upon foreign cities are at a discount, whilst bills drawn upon itself from abroad are at a premium, and that, accordingly, indications exist of an eventual influx of specie. When it is said that the exchanges are unfavorable, a situation is described in which foreign bills are in great demand, and when, consequently, their value seems likely to be so enhanced

as to render the export of bullion an unavoidable alternative. It is sufficient to remember that this is the meaning of the term, without entering further into the question of its origin.

It is necessary to call attention to another point, before proceeding to the consideration of the interpretation of the fluctuations in the rates of exchange. It must be borne in mind that bullion shipments follow the course of bills payable immediately, and cannot be compared with such as have some time to run. Most of the primary elements of value affect long and short bills equally; but the rate of interest and the question of credit exercise an additional influence upon the former. If there is a demand for bills upon any particular town, the price of all such bills, whether short or long, will rise. That is the general tendency. If, however, in the city in question the rate of interest were at a very high point, it is evident that the price of long bills would not rise in the same proportion as that of short; for the purchaser must bear the discount, which has to be deducted from the long bill before it can become equally available with the short bill; and for any increase in this discount he requires to be compensated by a so much cheaper price. He

must be compensated in the same manner for the risk which he will run till the bill be ultimately paid.

As an index of the general position of trade, the value of short bills is the more important; whereas the rates given for long paper, as compared with those for bills on demand, point mainly to the rate of interest, and partially to the state of credit.

Bearing in mind the existence of this distinction in those cases where (as, for instance, between London and Paris) the short exchange is the most prominent, and not straining it too much where, owing to various circumstances, long bills only are to be obtained to any amount, as is the case in St. Petersburg, we may now examine the method in which it is right to proceed when it becomes desirable to interpret the indications afforded at any given moment by the Foreign Exchanges. It results, from the whole tenor of the previous arguments, that it is above all essential to remember that fluctuations can be caused not only by one cause but by many, and that till proof is given that actually no other influence is at work than the one which may be selected as possible and plausible, no reliable opinion can be formed. It is an error often committed, when scientific subjects are superficially

or popularly treated, to consider it enough to point out one cause as sufficiently accounting for any phenomena, regardless of the fact that it is far more important to prove that there are no other causes which could have led to the same results. But on no occasion does this fallacy more frequently blind the judgment than in questions of mercantile finance, possibly because the facts with which they have to deal are so complex and entangled that any clear and intelligible solution of the difficulty is held to be sufficiently satisfactory without regard to the necessity of applying further tests. Half of the benefit which might be derived by a study of the exchanges is lost in consequence of the tendency to be satisfied with the first plausible explanation. Egregious errors might be committed if an argument were founded on the state of the exchanges between Hamburg and London which relied on the balance of trade alone, without considering the difference of value which would result from a premium on silver, the currencies of the two countries being dissimilar. So it is not sufficient to consider the Russian exchanges simply as indicating the enormous indebtedness to foreign creditors, to the exclusion of the influence of the depreciated currency.

A notable instance of the necessity of never losing sight of or neglecting all the various elements of value which enter into the prices paid for bills of exchange, is to be found in the extraordinary depression of the American exchanges at the beginning of the year. Strangely enough, months elapsed before it was clearly acknowledged and understood by the majority of the public that the efflux of bullion was mainly the consequence of indebtedness. Another explanation, grounded on the panic in the States, and on the speculations of English capitalists, had been put forward as sufficiently explaining the prevailing drain; whereas the test of indebtedness should have been applied first of all. The specie shipments were hurried and intensified by peculiar modifications of that indebtedness; for instance, by the Americans drawing sooner than usual against their claims on England, by their suspending their orders for English manufactures, and by the forced and unnatural increase of exportation, even of articles not wanted in Europe. But the primary cause of the fall of the exchanges lay in the immense excess of their exports of wheat and flour, following, too, on a cotton crop of unprecedented extent. Independently of the political crisis,

Europe would have had to pay a balance to America in gold; and this was surely the cardinal point to keep in view, in considering whether the export of bullion would continue or cease. Such authorities as, at the commencement of the efflux of bullion, pointed to the folly of the merchants who sent it out, and prophesied that probably it would return to them in the same ships, committed the error of looking principally to the stock of gold in New York, to the speculations in American securities, and to the operations of capitalists, rather than to the one broad fact, which was clearly discernible on closer inspection, that the balance of trade was largely against England and Europe.

Stress was continually laid upon the fact that the stock of gold was accumulating in New York and was decreasing here, and it was argued that consequently the gold must return. It is plain, however, that for this result to take place, one of the following events would have to occur: either the bullion would be returned hither because the Americans owed money to us, and sent it to pay their debts; or it would be remitted against fresh orders for English manufactures or for American stocks held in English hands; or it would be sent

hither as a loan to English capitalists, in the expectation that money would, as was certainly probable, become dearer here than in America. Those who maintained that bullion would return, were bound to prove that one of these operations would take place. The first was a question of fact: Did the Americans owe much to Europe? The second was a question of probability: Was it likely that the Americans would regain sufficient confidence to enter upon new mercantile transactions? The third was also a question on which opinions might be divided: Was it probable or the reverse that in a time of great national emergency the New York bankers would remit their capital for employment to Europe, because gold accumulated rapidly in their vaults?

These were the questions upon the solution of which the slow or rapid return of bullion depended, and they might fairly have been made the subject of discussion. But to argue that, because in 1857 the bullion which was exported to America was immediately returned, the same results would be witnessed in 1861, was to overlook the fundamental and primary element of value in the Foreign Exchanges—the relative indebtedness. In 1857 the Americans had incurred enormous debts to Europe;

in 1860 Europe had incurred enormous debts to them. Here was the key to the whole position. On the former occasion, the export of specie to the States was unnatural and artificial. It was lending your debtor more, in the place of exacting payment. On the latter occasion, the export of bullion was natural and inevitable, because it was made to discharge a debt; it was a payment somewhat hurried, and conducted somewhat against the usual rules, because the creditor, finding himself in the midst of a most dangerous political crisis, became suddenly urgent to receive all that was due to him, and to forestall, rather than to delay, the settlement of his claim. He drew his bills, and forced them on the market with the eagerness of panic. Few buyers were to be found requiring them as remittances in discharge of European liabilities; for trade had been curtailed, no new orders had been given, and, before the crisis commenced, the unusual prosperity of the Western States, in consequence of vast crops of grain, had made it possible for remittances against previous transactions to be sent earlier than usual. Thus, the bills were bought up, not by such as had liabilities to discharge, but by such as were willing to advance the value of the bills till their equivalent in gold

could be procured from England. This was the office of the New York banks, and by far the greater quantity of the bullion shipments consisted in what may be called the anticipated proceeds of these bills. Without the influence of panic, a high rate of interest on this side might have delayed the export of the proceeds, at least till the maturity of the bills. If these proceeds had remained longer on this side, they would either have constituted a loan to the banker to whom they were remitted, or they would have been invested in some kind of merchandize, and returned in that form rather than in gold. What other alternative was possible?

The late events connected with America offer, in so many respects, illustrations of the working of the exchanges, and of the force of the word "favorable" or "unfavorable" as applied to them, that it may be useful to enlarge upon this subject a little further. It may be asked, Why, if the balance of trade, in its simplest sense, was, to use the popular phrase, in favor of America—that is to say, if they owed less than they had to claim,—why, then, was there any ground for panic in New York? The answer is clearly that, from a monetary point of view, not only was there no reason whatever to induce a panic, but, on the contrary, there were

evident grounds for confidence. Sellers of bills might foresee a difficulty in disposing of them above the specie point, and consequently up to that point press their bills upon the market ; but the only apprehension that could be felt was, as to whether they would be able to obtain facilities till the time when the equivalent of their bills, if remitted to Europe to be converted into specie, would return into their possession. The aggregate of a community cannot be alarmed at the position of its money-market and of the exchanges, when the whole world is indebted to itself, at least so long as it has every confidence in the solvency of its debtors. The panic, if it may be called so, which occurred in America during the winter, was attributable *solely* to political causes, which rendered all who had bills for sale eager to underbid each other for the sake of immediate payment, and to accept a price far below what they would have realized if they had had their bills exchanged into gold in England. It was this urgency to secure themselves money at any price which induced the New York merchants to export every kind of produce, which normally, owing to the increase of the currency, would have risen in value in the States, to European markets, where prices were sure to fall, owing to the decreasing currency. A panic usually

occurs in the money-market of any country when the exchanges become unfavorable to it; but it is a rare occurrence to see alarm felt at an unusually favorable situation of the exchanges.

The ambiguousness of the term "favorable exchanges," to which allusion was previously made, becomes peculiarly prominent in this instance. The exchanges, when at such a point that the necessity of specie remittances from England to America was clearly indicated, were, what is called by common consent, highly favorable to America, and the very reverse to ourselves. The American exporters of grain and cotton were, however, the very class who suffered most from the position, in so far as they might practically have to bear the expense of the costly transmission of specie, with all the losses attached to it. On the other hand, the English debtors may be argued with some plausibility not to have suffered any loss, because to them it was immaterial how they paid their bills at maturity—whether by handing the amount over to their neighbours, to whom the Americans would, in normal times, have remitted bills upon them; or by shipping it in gold by order and for account of their American creditors. But there is a fallacy in this. The charge on the exporter

will, in the end, be borne by the consumer of the produce exported. Thus the interests of the exporter become identical with those of the foreign country. For, that which adds to the cost of the article which he exports, must be borne either by him or by the consumer of his produce; and it is their joint interest that no such addition should be made. The cost of the transmission of bullion is an addition of this nature; and therefore it is contrary to the interest of the exporter, and of the country to which he exports, that such an expense should have to be incurred.

Thus we come to the position, that a condition of the exchanges which leads to the importation of specie into any country favors the importers and consumers of that country, but causes an additional charge to the export trade. However, the extra charge upon this export trade having ultimately, on the above supposition, to be paid by foreign countries, it may be maintained that the state of the exchanges is, in a certain sense, favorable to the country in question, and unfavorable to the foreigners with whom it trades. A clearer view may be gained of this position if it be assumed for the moment (what is partially true) that each country *fetches* from the other that which

it requires; in other words, that the export trade of a country is managed upon the order system. Cotton and grain may be sent from the States, not for account of American sellers, but of English buyers, who have given their orders. If the article is bought by the foreigner in the place of its production, it is plain that any sudden extra charge upon exportation must be borne by him; and thus a sudden fall in the exchanges, which makes his bill upon his London house less valuable, or causes the whole cost of the transmission of bullion from England to pay for his purchases to fall upon him, becomes unfavorable to the country to which he belongs, and for which he is buying, and not to that from which he is buying. Conversely, the Americans who give orders to English manufacturers are able, during the same period of low exchanges, to buy up bills on England which will pay for their goods, at a cheaper rate than usual, and are able to save the expense of the transmission of bullion, which, during normal times, generally falls on a portion of the American importers. As far as facility and economy in importing the products of other countries are concerned, a state of the exchanges which renders it possible to purchase bills to pay for them, cheaply

and easily, may most correctly be designated as favorable.

Returning from this digression, into which we were led by the examination of the remarkable peculiarities exhibited by the recent situation of the American exchanges, and resuming the consideration of the general mode in which the position of the exchanges should be read and interpreted, we should remember that it was the omission of the most important element of value,—namely, relative indebtedness,—which led, in the first place, to an erroneous interpretation of the perfectly natural efflux of bullion; and in the second, to a mistaken estimate of its probable duration. It has been remarked that no one of those influences, which determine the fluctuations in the prices paid for foreign bills, should be lost sight of, when an explanation of any particular variation is desired; but it is also necessary to remember that a certain order should be followed in examining which of them is the most prominent cause. If the prices of bills on any country are so low as to indicate that that country will probably have to pay the balance in gold, the first question which must invariably be asked (so long, at least, as the price of the bills is not much below the specie point, in which latter case

there would be a strong presumption that the depression was owing to a depreciated currency) is as to the extent of the relative indebtedness. If gold has to be exported, the first supposition must be that it is exported in payment of a balance of debts. If it were otherwise, why should the costly expedient of bullion remittances be resorted to in the place of the far more convenient process of remittances in bills? Simple as this position is, it is not always sufficiently appreciated in practice. When specie is being exported, it is sometimes supposed to be merely what is called an exchange operation, undertaken by a certain class of speculators, whose business it is to make a profit out of the variations in the price of foreign bills at different moments, buying them when they are cheap and selling them at a profit, and sometimes sending bullion abroad to buy up bills on the country in which they live, if the prices should be temporarily below or touching specie point. But not even in this case will gold be exported so long as these speculators in exchange, or cambists, as they are technically called, can procure short bills. They wish to place funds at a certain spot. As long as they can procure short bills in the quantities they desire—as long, that is to say, as there are sufficient foreign debts to their own

country, payable immediately, which can be transferred to them, and which they can pass on to others—they will not export gold. An efflux of gold accordingly proves that the supply of short bills on other countries is being exhausted, that there is little more to claim at the moment from the country to which the bullion is despatched, and that the balance of indebtedness is against the country in question.

A further inference can be deduced from the foregoing remarks. It is often supposed that gold is never exported unless to give a profit to those who despatch it. But this is manifestly a fallacious idea. The expression which is so often made use of, that the rates of exchange in any country—for instance, in America—are at such a point that no profit is to be made on shipments of gold thither, must be carefully guarded from leading to a misconception. Such a fact is valuable to know, to a certain degree; but it does not prove that the despatch of bullion may not be natural and necessary nevertheless. It must be sent by those who are in debt to that country, if they cannot find bills. It is far more important to inquire, Is the balance of indebtedness discharged? The exchanges may remain exactly at specie point for a long

time, offering no prospects of profit to any cambists, yet compelling the constant flow of bullion in order to discharge liabilities. It is indispensably necessary to consider what debts have to be paid, before a judgment as to the drain of bullion can be formed. It is not so superfluous as many might believe, to dwell so frequently and so strongly upon this point, because, as a matter of fact, language is continually held, even among men who should be well versed in questions of this kind, which is practically at variance with the principles here put forth, though, in theory, they command immediate assent.

The question of profits on exchange operations can be reduced within very narrow limits. If carried beyond them, it only serves to obscure the plain operation of natural causes, without being essential to the real understanding of the subject. Profits can habitually be realized by those who, when they observe that there is a prospect of the demand for bills exceeding the supply, purchase in anticipation, in order to sell at a higher price when the natural buyers, who require the bills for remittances, enter the market later on. And even when the exchanges reach the specie point, profits, though on a very limited scale, are made by those who, by

having establishments identical with their own in foreign cities, and having a machinery specially organized for the purpose, are able, by the avoidance of commission and the reduction of charges, to make bullion shipments at a cheaper cost than the actual merchants or manufacturers who have the remittances to make. They despatch their gold and sell the bills drawn against this gold to those who require to send funds abroad, realizing a fractional profit for the convenience which they afford. This, however, is in reality a matter of detail, and, as far as the exchanges and the principles which determine them are concerned, it is perfectly indifferent whether the debtors to foreign countries—that is to say, importers, merchants, or consumers—remit gold themselves, or pay a slight profit to cambists and bullion dealers, who, shipping it in large quantities, deal out the bills drawn there-against to such as require to remit.

It is only in perfectly abnormal times that large profits are to be made on specie shipments, and only when the countries, to which the shipments are made, lie at a very considerable distance; so that those who have the sagacity to ship in time, or before others deem it necessary, have the advantage of being able to buy up bills below the specie point,

owing to the urgent necessity of the sellers of the bills to receive the equivalent immediately; otherwise, it has been proved to be abundantly clear that the seller of such a bill,—rather than allow such as have bullion on the spot by having shipped it in anticipation, to make a profit which would be his own loss,—would send his bill to be encashed, and wait for the returns in specie himself. Where there can be immediate action and immediate communication, as between London and Paris, there can be scarcely any further profits upon shipments of gold beyond those which can be effected by an economy of charges. Those who have a machinery for the purpose can gain a profit which, in reality, is a kind of commission paid by the rest of the community. At a distance, there is much more margin; as where months may elapse before bills can, by their natural process, be converted into coin, those who can undertake to give this coin on the spot can often make their own terms.

It will be seen that among the artificial means of checking or intensifying the natural action of the exchanges, the operations of cambists play a not important part. In the case of a gradual fall in the exchanges in a distant country, where, if left to themselves, they might recede below specie point,

because the unfortunate drawers of bills, being unable to wait the arrival of specie for their own account, might require their equivalent immediately, it might modify the position very much if speculators in foreign bills had foreseen the occurrence, and sent out specie to anticipate their wants, securing to themselves a moderate profit, but saving the drawers from a much heavier sacrifice. If gold had been sent out from England to America a month earlier than it was, the exchanges would never have sunk much below the specie point, and such extraordinary discount on bills in England as actually occurred would never have been witnessed. These are points which it is necessary to understand and appreciate, and which come into consideration in interpreting the exchanges of a given country at any given moment, but which do not affect the correctness of those elements of value which in principle determine the prices of bills.

Of these it has repeatedly been pointed out, that the balance of indebtedness is the most fundamental. But in the same way as errors are committed by overlooking or confusing the fact of the existence of this principal cause, so would a wrong judgment certainly ensue if fluctuations in the exchanges were supposed to be indicative of none of

the others. Cases may be found of an efflux of bullion where it appears impossible that an unfavorable balance of trade can exist; and this explanation being found inadmissible, another must be sought. It is needless to recapitulate in detail the various monetary derangements of which fluctuations in the exchanges may be the signs: enough, for instance, has been said to explain the peculiar features in the rates of exchange which would point to differences in currency, as distinguished from other disturbing causes. They will be remarkable for extending far beyond the limits within which such fluctuations as are caused by excessive imports or exports are ordinarily confined, and for being far more arbitrary and eccentric in their movements. So, too, the influence of credit or discredit will not be forgotten; and at any time of panic or other temporary derangement of confidence, the discount at which bills are sold will not be mistaken for the result of an adverse balance of trade or a depreciated currency. And, again, it will be borne in mind that sudden movements in the exchanges, either upwards or downwards, may reflect the position of the rate of interest in different countries, not only in the case of long dated bills, the variations in the prices of which, when they

differ from the variations of bills payable on demand, are regulated exclusively by the value of money and by credit; but also in the case of these bills on demand, as indicating that a high or low rate of interest is causing certain movements of capital from one country to another. The most general feature of which the exchanges are the sign, is the degree of intensity to which the demand for bills on a foreign country exists; and it is clear that such a demand may be caused as much by a desire to place a certain amount of capital in that country for the sake of employing it at a high rate of interest, as for the purpose of paying a debt. A high rate of interest attracts capital from abroad, and the effect of this attraction is immediately perceptible in the exchanges. By recalling the most elementary view of the transactions with which the exchanges are concerned, and by realizing that foreign bills, to the prices of which so much importance is attached, are but the instruments by which payments are effected between different countries, it becomes clear at once, that in the prices paid for such bills we may discern the strength of the current in which capital is setting towards one point or another, and that the effect of all such measures as may be taken to arrest or to hasten the force of

this tide, will be registered with unerring certainty in the variations of the so-called "rates of exchange." Now there is no influence which determines the movement of capital from country to country with such force as is exercised by the rate of interest, and accordingly this is the power the effect of which is indicated by the exchanges with the greatest susceptibility; so that it will be acknowledged that amongst the various mercantile questions, for the solution of which a study of the Foreign Exchanges is eminently important, there is none which is more closely dependent upon this study than that which treats of the manipulation of the rates of discount and interest.

## CHAPTER VI.

### REVIEW OF THE CORRECTIVES WHICH MAY BE APPLIED WHEN THE EXCHANGES ARE UNVFAORABLE.

Having considered the interpretation of fluctuations in the rates of exchange, and holding fast to the principle that, in the investigation of each particular case, all the various influences which affect the price of bills must be present to the mind, and that judgment must be exercised in assigning the limits of the power of each, it becomes practicable, when the exchanges appear to be setting against any given country to an undue degree, to judge of the remedy by the cause, and to decide as to the measures by which this tendency may be arrested; or, as the matter is sometimes put, to discern the correctives of the unfavorable state of the exchanges. It must, however, be borne in mind that that which is really to be corrected is not the actual position of the exchanges, but that

state of things which has brought it about; and, accordingly, as the fall or rise in the prices of the bills on any country is discovered to proceed from any one or more of the causes which have been pointed out, either from an excess of imports or exports, or from a state of general discredit, or from a depreciated currency, or from changes in the rates of interest in different countries, so will the remedies proper to the occasion have to be selected. When an abnormal state of the exchanges on any country is proved to be the result of an absence of credit, it is clearly impossible to suggest any effectual corrective. Such a case must be left to itself. If a depreciated currency is proved to be the principal cause, the question of the means by which the equilibrium can be restored scarcely falls within the limit of the present treatise; for it seems clear that this could only be effected by the currency being improved, and the mode in which this object could be accomplished belongs to a different branch of inquiry to that on which we are now engaged. But the recent attempt on the part of Russia (which country offers an instance in point, except in so far that the depreciation of the currency is there indissolubly blended with the results of excessive importations) to raise the Russian

rates of exchange, which have long continued at a hopelessly low point, is so instructive that it may be useful briefly to notice it.

The position was this, that the Russian merchant, for a long period, had been unable with his paper roubles to purchase sovereigns or francs except at a ruinous sacrifice. Bills on London and Paris could only be bought at an enormously high price, and, except in peculiar cases, he was prohibited from sending gold. The Government for some time attempted to remedy the evil by turning banker itself, and causing bills to be drawn on foreign countries for its account, so as to supply the merchants with the means of making remittances: but this was a temporary and short-sighted expedient. The Government was obliged to cover the bills so drawn, and to effect this, saw itself forced to resort to one of the following alternatives: either to export a portion of its stock of bullion, thereby lowering the currency which it desired to raise; or to buy up all bills on London and Paris which might be obtainable, thus entering into competition with the very merchants whom it had wished to alleviate; or to make arrangements with the foreign capitalists not to cover the bills at all—that is to say, to negotiate a loan. A foreign loan

was ultimately the expedient selected, not only with a view to cover the drafts which had been issued, but to raise a large sum besides, which should be the means of bringing gold into the country, or, at least, of producing a corresponding effect. The Government would either import the gold itself, and thus raise the currency by extinguishing an equal amount of paper money; or it would draw against the gold placed at its disposal abroad, and thus, by creating a greater supply of bills, available for those merchants who had foreign liabilities to discharge, enable them to remit at a smaller sacrifice, that is to say, at an exchange more favorable to Russia. The price of the bills being paid by the purchasers to the Government in paper money, the paper currency might also be reduced to the same extent as before. But the main object of the whole scheme was defeated by the peculiar circumstance that a great portion of the loan was taken by Russian capitalists themselves, and, accordingly, simultaneously with the supply of bills drawn by the Government against the loan negotiated abroad, there was an increased demand for bills, as these capitalists required them, in order to remit them to their correspondents abroad for the purpose of buying the new Russian stock. The consequence

was that the exchanges were scarcely affected at all; the Government had certainly attained the object of converting a portion of the paper currency into a permanent instead of an immediate obligation, and, to the extent to which the currency was improved, it might have been expected that the exchanges would have improved also; but the effect which a really successful foreign loan would have exercised, through the substitution of a permanent debt on the part of the Government to a foreign country in the place of the immediate pressing liabilities on the part of the trading community, was not attained, in consequence of the loan being taken to such a degree by Russians themselves.

In the instance just cited of an attempted correction of unfavorable exchanges, the attentive reader will not have failed to discern how difficult it is to separate the results of a depreciated currency from those of excessive indebtedness. The effect which the remedy of a foreign loan exercises upon both, exhibits, in a peculiar manner, the close connexion between the two. A foreign loan, as has been previously remarked, is identical in effect with increased exportation, and consequently will always tend to correct, as far as it goes, any derangement of the exchanges caused by a surplus of imports

over exports. But, in its character of an export, it would appear that, in common with all other exports, it will assist, so far as it is successful, in improving the currency; for, naturally, an increase of exportation either arrests the efflux of bullion, or produces an influx, and thus, raising the proportion borne by the bullion to the remainder of the currency, thereby *pro tanto* improves the circulation. Accordingly, the fact that the loan, which was to be raised mainly in order to improve the Russian exchanges, appears, on a careful examination of its operation, to have acted, as far as it went, rather on the currency than on the results of over-importation, does not prove any confusion between the two causes, or any misapprehension as to the limits of each, but simply the close intimate relations which exist between them. Except by the internal action of a Government, it scarcely seems possible to deal with the one without affecting the other, but their origin in many cases will be found to be theoretically, and even practically, quite distinct.

Putting aside, with these modifications, the more complicated subject of the currency altogether, and confining ourselves to the more mercantile part of the question, we shall discover that the cases, in which an action upon the exchanges is

really and effectually possible by mercantile and banking means, are those where the fluctuations have been caused by some disturbance in the ordinary balance of trade, or by a rise or fall in the rate of interest in either country.

These two influences will be generally found to be operating simultaneously in opposite directions. Money will be dear and scarce in the country which owes much to foreign creditors, and plentiful in that which has exported much; and high interest will be attracting money to that quarter whence specie is flowing out in payment of foreign debts.

The adverse balance of trade will, as far as its power extends, lower the price of bills on such a country as owes too much, and possibly compel it to export specie; whereas the high rate of interest, which is generally contemporaneous with a drain of specie, will create a demand for bills on this same country, and enhance their value in other quarters; for there will be a general desire to procure the means of remitting capital to that market where it commands the highest value. At the same time, as the excessive indebtedness of England to America (the result of her importations of cotton and corn) lowered the price of English bills in New York, and rendered specie remittances to the States inevitable,

the high rate of interest ruling here, which this situation had brought about, was so attractive to continental bankers, that they drove up the price of bills upon this country to specie point, and were finally induced even to resort to bullion remittances to England.

From the foregoing, it seems to be evident that when the exchanges are manifestly against any country, and it is perceived that excessive indebtedness is the cause, there are only two modes of restoring the equilibrium: the one being to increase the exports and diminish the imports; the other, to raise the rate of interest.

If the excess of imports over exports appears to be of a permanent character, it will be impossible to redress the balance without reducing the national indebtedness. If a nation is importing and consuming more than it is exporting and earning, and accordingly, after stopping the gap as far as possible with its surplus capital, runs into debt, it can escape from this position only by consuming less or producing more. If, however, the derangement is but temporary, and while it consumes more than it produces in the first six months of the year, it exports more than it imports in the second six months, it can, like an individual with a prospective

income, raise money to carry it over the interval. By offering a very high rate of interest, it will either be able to procure a prolongation of credit from its creditors, till in the natural course of things, by the subsequent increase of exports, the balance is paid off, or it may induce third parties to make it a loan. Even in the former case, where a country is actually spending too much, and where, by borrowing, it can only increase the evil, as being thus enabled to keep the real danger out of sight for a time, a very high value of money is, in a certain sense, most desirable; as, by the action of the value of money on prices generally (according to the well-known principles which determine the relation between the two), a diminution of imports, and, consequently, of indebtedness, is likely to ensue. But what we are at present most concerned to examine is the operation of a high rate of interest in those more usual cases where we have to deal with temporary fluctuations and sudden emergencies, such as may be caused by the loss of a harvest, or by a period of general national extravagance, ending in a critical inflation of prices, or by excessive warlike expenditure. In such times, when the resources of a country are crippled for the moment, and its debts increased, it is most desirable—and indeed, absolutely

indispensable—that not only bankers and merchants, but also the public at large, should clearly understand how quick and effectual a relief may be afforded by a high rate of interest. Those who imagine that that which they call an oppressive rate, only adds to the losses and difficulties against which the trading part of the community have, at such periods, to contend, seem very much in error. For it is obvious enough in theory (and late events have strikingly confirmed the theory in practice), that if apprehension is felt, that the export of gold, which is resulting from any of the temporary emergencies just alluded to, is exceeding the amount which may conveniently be spared, and that the withdrawal of capital or currency which is taking place is likely to produce a scarcity which may render it difficult to conduct the business of the country on the ordinary footing, there can be no more effectual a remedy than to offer an inducement to foreign countries to replace that which is being lost. An influx of capital is desired to take the place of that of which the country, owing to its exigencies in another quarter, is likely to be deprived for a time; and this influx of capital is only to be procured by offering it the advantages of a high rate of interest —a rate, that is to say, higher than it can make

at home, and sufficient to indemnify the capitalist for all the expenses involved in the transmission of his capital from one country to another.

Whether the inducement is powerful enough to effect its object, will at once be apparent from the symptoms exhibited by the Foreign Exchanges. If the bills on the country where interest is high are in increased demand at advancing prices, an indication will be afforded that the attraction of the high rate is working its effect. When the English public is anxiously watching the weekly shipments of gold to America, and is taught to look for consolation to the continental exchanges, which, let us suppose, are said to be taking a favorable turn, it is meant that the Continent is seeking with greater eagerness for English bills,—a symptom that they are preparing remittances for the purpose of sending over funds to England, and that capital is passing from the Continent to us. The more the price of the bills advances, the nearer is the specie limit approached, till finally the remittances are made, not in bills, but in gold. Practically, the effect of the purchase of bills for the purpose of placing funds in England, is identical in its effect with a shipment of gold; for every English bill held by continental capitalists gives to its possessor the power of drawing gold from us.

It should be observed, that to advance the rate of interest in those cases where the efflux of specie seems to be excessive, is but to follow the natural course of things. The abstraction caused by the bullion shipments will of itself tend to raise the rate of interest; but where it is possible by any measures on the part of banking establishments to accelerate this result, it should at once be done. It would encumber the course of the argument to enter at this stage on the discussion as to whether it is capital or money which is rendered scarce by the exportation of bullion, and which can be attracted by a high rate of interest. Whichever be the case, the opportunity given by higher rates of interest for advantageous employment will be made use of. A country which is paying off its debts, is sending away a portion of its capital when it exports specie; and the foreign bankers who send over gold in order to buy up English bills, are supplying us with capital for a time, to take its place. At the same time, the actual export of bullion is a loss to the money of the country, and the import of gold from abroad replaces that which has thus been lost. In both cases, that which will effectually bring the gold from abroad, in the most general and practical sense, will be the

opportunities offered by a high rate of interest, to effect profitable and attractive investments.

The efficacy of that corrective of an unfavorable state of the exchanges, on which we have been dilating, has been most thoroughly tested by late events. Every advance in the bank rate of discount has been followed by a turn of the exchanges in favor of England; and, *vice versâ*, as soon as the rate of interest was lowered, the exchanges became less favorable;—that is to say, in the first case, there was an indication of a demand for bills on England, as a means of placing capital here, to take advantage of the ruling rate; in the second case, there came the reaction, that is to say, there was a demand for bills drawn upon foreign cities, in order to send this money back: or, what comes to the same, in the first instance there were few buyers here for bills on foreign capitals, because foreign creditors had given their English debtors a respite, and preferred to wait longer for remittances, gaining interest meanwhile at the profitable English rate; in the second, when this rate was lowered, the foreign creditors found that they had no longer any advantage in leaving their claims upon us open, and required pending accounts to be closed.

The general effect of a high rate of interest in attracting capital, and its consequent action upon the Foreign Exchanges, may easily be understood and appreciated, even by those who are not conversant with the details of banking business; but a further effect of the same cause is of a more technical nature. It will be remembered, that of the aggregate indebtedness of any country, a large portion is generally embodied in bills of exchange which have some time to run. Now, these bills seldom remain in the hands of the drawers, but are partly used as immediate remittances to the country where the bills are payable, and partly are bought by bankers or capitalists who desire them as an investment of money, yielding a certain interest during the interval between the date of their issue and the date when they fall due. This interest lies in the cheaper price of the bills. A bill drawn payable three months after date is bought by a banker at a price which is equal to a bill payable on demand less three months' interest, and this interest will not be that of the country where the bill is drawn, but that of the place where the bill is payable: for the purchaser will have to discount the bill in the foreign country at the rate there ruling, before he can make it equally available with a draft on demand;

and the drawer can suffer this deduction from the price of the bill at the same rate without loss, as, giving the foreign acceptor three months' grace before payment, he will receive from him the same amount of interest until the debt is discharged by the actual payment of the bill, as he loses in the price of the bill itself. Accordingly, when foreign bills are bought as an investment, it is with the view of making the higher rate of a foreign country, in the place of the lower rate ruling at home; a circumstance, which it is most important constantly to remember, as the tendency described may be relied on as always in operation when the rate of interest is peculiarly high in any country, the credit of which is unimpeached. As a matter of fact, the interest which can be secured by what we may call the speculative purchasers of bills, generally lies between the rate of the country where the bill is purchased, and the rate of that on which it is drawn, as competition enables the seller to secure a portion of this species of profit. If the rate in Germany is 3 per cent., and the rate in England is 5 per cent., those who have three months bills on England will not be obliged to submit to a discount of 5 per cent., which, according to first principles, should be deducted. Many will be found, who, in order them-

selves to make 1 per cent. more than the highest rate which they can secure at home, will not claim to deduct more than 4 per cent. from the price which they would pay for a bill on demand, instead of the 5 per cent. which would be the natural rate. It should be observed that these greater or lesser deductions are generally expressed, not in the rate of interest which is to be deducted, but in the price of the bill—the bill is so much cheaper or dearer; but it is expedient to consider the case in what we may call its original form, in order the more clearly to discern the force of the rate of interest.

We now come to the fact, which it is also very important clearly to appreciate, that at any moment there is in the hands of bankers and exchange-dealers a large amount of bills on various countries, held partly for the purpose of speculating on a rise or fall in the price of bills, but, to a very large extent, solely for the sake of the interest which is to be made on them. Bills on England, owing to the high rate of interest which they have borne for some time, have been a particularly favorite investment abroad. In Paris, Berlin, Frankfort, Hamburg, and other continental cities, the bills on England held by the bankers and joint stock companies often amount to many millions sterling; and

a very large sum remains in their hands for several months,—in fact, from the time when the bills are drawn to the time when they are due. The immense importance of this circumstance cannot be overlooked; if at any time the rate of interest here falls below that which rules on the Continent, it is inevitable that the whole mass of these bills will at once be sent to London, and be discounted there at the cheaper rate, so that the proceeds may be remitted in gold to the Continent to be invested there in local securities at the supposed higher rate. On the other hand, so long as the discount in London is higher than that which can be obtained abroad, so long the foreign bankers will be induced to hold their bills till they become due. The debt, it will be remembered, which is embodied in the bills in question, and without which they could not exist, must be paid sooner or later; but the time when it must be liquidated will, within certain limits, depend upon the rate of interest. If it be high, the bills will be allowed to run off abroad, and the gold will not be exported till the last moment; if it be low, there is the possibility of the whole mass of bills being sent to England for discount as soon as they are drawn, and the gold being exported at once instead of three months afterwards.

Accordingly, if, to take a practical instance, specie is being exported from England to America, an advance in the rate of discount is an inducement to foreign capitalists to hold back their bills upon England to the last moment, as well as to make remittances hither to invest the proceeds at the high rate: both circumstances cause a demand for these bills abroad, and their price must rise. At the same time, a proportionate fall in the price of foreign bills will occur. For, a convenient mode of placing funds in England being to instruct English firms to draw on foreign capitals, these bills are likely to be pressed on the market; whereas, owing to the assumed desire rather to leave capital in England than to call it in, there will be few purchasers for them, and their price must decline. (The rise of bills on England abroad is always identical with the fall of the prices of foreign bills in England; for there are two ways of settling every international transaction: either the creditor draws a bill on the debtor, or the debtor remits a bill to the creditor; and accordingly, the same circumstances which make it difficult to the creditor to sell his bill to advantage, will make it difficult for the debtor to purchase the necessary remittance to advantage. When bills on England

decrease in value abroad, bills on the Continent increase in value on the London exchange; and when, as in the case where a high interest is setting the current of capital towards England, there is great demand, at high prices, for bills upon London, there is a corresponding absence of demand and low prices in England for bills on foreign cities.)

After the preceding observations, it may well be inquired,—How is it possible that, in spite of the rapid flow of capital from one country to another to fill up any gaps that may have been left, such a difference in the rates of interest can exist between two countries as has been witnessed for some time in the case of England? How, it may be asked, is it to be explained that the rate of interest can remain at 6 per cent. in London, and at 2 or 3 per cent. in Hamburg and other continental cities? This is a mystery which has puzzled many during those months in this present year in which our rate of interest has so much exceeded that of the Continent. It is a question, however, which can be solved with the greatest facility.

In the case of Hamburg, we have to deal with the fact that there exists a difference of currency. The capitalists of Hamburg, who have by the

hypothesis so much money to spare that they can only manage to obtain 2 per cent. interest for it, possess this money in silver, and accordingly, the possibility of their sending this surplus money over to England will depend upon the probability of the silver being sold to advantage. The natural process would be to ship the silver to England, to sell it there at what it will fetch, and with the proceeds to discount English bills at the high rate current in England. When these bills, however, mature, and the Hamburg banker wishes to re-possess himself of his money, he will have to change the sovereigns, in which the English bill is paid, back again into silver, possibly paying a premium for it, and this silver he will have to re-ship to Hamburg. This is the complete theoretical process. He remits his silver, invests its equivalent for a time in bills payable in gold, and re-ships silver to Hamburg when the bills mature. Accordingly, when he strikes his balance at the end of his operation, he will find, in the first place, in his favor, the difference between the Hamburg and the English rate, which we have supposed to be as great as 4 per cent. This difference, however, if we suppose him to have invested his money in a three months' bill, he will only have enjoyed for a quarter of a year, and thus his apparent

profit will so far be 1 per cent. But out of this 1 per cent. he may, under unfavorable circumstances, have to pay the expenses of specie remittances to and fro: first, on sending his silver to England, and then on its return; and further, he may lose, and have to sacrifice, a difference between the price at which he sold his silver on its arrival in England, and that at which he bought back a similar quantity of the same metal when he required his capital again at home. It is easy to perceive that it is exceedingly possible that these expenses on the transmission of bullion and the loss on the silver may far exceed the 1 per cent. which he is supposed to have gained; and accordingly it is quite clear that, under certain combinations of circumstances, it is natural and quite intelligible, that even a difference of as much as 4 per cent. may exist between our rate of discount and that in Hamburg, without their surplus capital finding its way to our money-market. At the same time, it will readily be conceded that there is a point at which the difference becomes so great that the chances of loss and expense are more than covered by the increase of the interest, particularly if the high rate can be secured for six-month instead of three-month bills. During the late periods of high discounts on this

side of the Channel, there have been large orders here to take six-month bills for foreign bankers; and clearly the preference is given to the longer paper, because, the attractive rate being secured for so much longer a time, while the probable cost of bullion remittances and risk of loss upon silver remain the same, the chances of profit are almost doubled, or at least a larger margin is at once secured for provision against the risks which are run.

The instance of Hamburg, with its silver currency, offers a peculiarly convincing illustration of the difficulties attending the transmission of capital from one country to another; and, at the same time, of the necessity of raising the rate of interest sufficiently high as to overcome these difficulties, whenever it becomes desirable that foreign bankers should come to the relief of our money-market. However, it is easy to explain the possibility of two very different rates of interest existing simultaneously in two countries, even when they both have an identical currency. The point to be looked to is the cost of the transmission of bullion to and fro; and, according to the distance of the two countries, so will it be possible for differences in the rate of interest to exist in a greater or less degree. Between the rates in London and Paris,

the expense of sending gold to and fro having been reduced to a minimum between the two cities, the difference can never be very great; but it must not be forgotten that,—the interest being taken at a per-centage calculated per annum, and the probable profit having, when an operation in three-month bills is contemplated, to be divided by four, whereas the per-centage of expense has to be wholly borne by the one transaction,—a very slight expense becomes a great impediment. If the cost is only ½ per cent., there must be a profit of 2 per cent. in the rate of interest, or ½ per cent. on three months, before any advantage commences; and thus, supposing that Paris capitalists calculate that they may send their gold over to England for ½ per cent. expense, and chance their being so favored by the exchanges as to be able to draw it back without any cost at all, there must nevertheless be an excess of more than 2 per cent. in the London rate of interest over that in Paris, before the operation of sending gold over from France, merely for the sake of the higher interest, will pay.

This is the simple explanation why a slight increase in the rate of discount, is, under some circumstances,—that is to say, when there is not a

great supply of bills upon England,—not sufficient to bring over gold from the Continent. It must reach a somewhat high point before the certain advantage begins; and hence it becomes clear that it is an error to allege that, if 6 per cent. will not bring over gold, 7 or 8 per cent., a mere fractional increase in an annual rate, will not have that effect any more. Yet the question was frequently asked, when the bank rate of discount was advanced to 8 per cent.,—Is it likely that, if 7 per cent. failed to bring over the gold, such a result will be attained by charging 1 per cent. more? Yet the preceding observations place the matter, it is hoped, in a sufficiently intelligible light. The first few per cents. do little more than cover the possible expenses of the transmission of the bullion itself, a difference of 4 per cent. per annum on three-month bills being necessary to cover 1 per cent. expense; but as soon as the charges (or the risk of charges), which are really almost identical with what is usually called the loss in exchange, are covered, then every additional per cent. which is granted as discount becomes an actual and certain profit; and accordingly, if gold is required, the rate of discount must be boldly advanced till that point is reached. To stop short of it may possibly be nugatory.

Practically, the operations—owing to the constant supply of bills upon England—will take a somewhat different form from that which we have just examined, but the tendency will be admitted to be identical. When the English rate of interest advances, there will be a general desire on the Continent to take advantage of this circumstance, and to remit capital to England for temporary advantageous investment; but how is the transmission to England to be effected? Of course in bills, so long as they can be procured; and consequently those who are holders of bills on England, and are willing to sell them, find themselves in possession of an article which is suddenly in great demand, and are thus enabled to make a higher price. Competition raises this price, till remittances by means of bills become almost as expensive as a shipment of bullion itself; and thus the profit, which would be made by those who could remit bills at the usual exchange to England for the investment at the higher rate, is divided between those who sell the bill and those who buy and remit it. To the latter, when the demand is strong, the bill may finally become as expensive as bullion shipments themselves; and as the supply of bills becomes exhausted,

gold is actually sent. This is the technical explanation of the rapid rise of the price of bills on any country as soon as any advance in the general rate of interest obtainable there takes place.

It is an advance caused by the competition for the most ready and most convenient vehicle for the transmission of capital, the competition itself being the result of a high rate of interest. A lowering of the rate will cause a corresponding fall; and, acting with invariable force, and succeeded by invariable results, it is clear that there is no more powerful and effectual corrective of an unfavorable state of the exchanges, of a drain of gold, and all its attendant consequences, than a prompt and uncompromising advance in the rates levied for discount. It is the only mode by which that which is on the point of being lost may be retained, or that which is actually gone may be replaced; and its natural effect is not to produce a scarcity of money, of which it can never be the cause, though often the consequence, but to remedy and correct this scarcity by offering a premium to the rest of the world to send their capital or money to the dearest market.

An enumeration of the correctives of unfavor-

able exchanges would not be complete, without alluding once more to the function of those peculiar foreign bills of which mention has previously been made, which, not representing any actual indebtedness, do not become amenable to the laws which regulate that indebtedness, but, on the contrary, rather influence the exchanges in an opposite direction. When the indebtedness of one country to another is almost settled—that is to say, when almost all the bills between them are drawn, remitted, and paid,—it is the natural result of this situation that the price of the few remaining bills should become exceedingly high. The issue of bills representing no transaction in goods, but simply based upon credit, and, consequently, (but for the knowledge that they must subsequently be provided for,) illimitable, operates in the contrary direction; that is to say, tends to depress the price of bills. Thus there are times when, for the period during which the bills have to run, (for, as soon as they have to be covered, their previous effect is neutralized at once,) their issue may either enhance or decrease the export of gold, and either raise or lower the price of bills. For instance, let us suppose the case of America, when, her stocks of cotton and corn being exhausted,

legitimate bills, if we may call them so, would no longer be obtainable. Accordingly, though the New York bankers might wish to import bullion, not being able to find any bills or produce which they could send over as payment for the gold which they would otherwise order, they would desist from the operation and the gold would remain on this side; but if there were bankers in New York who had credits in London, and were authorized to draw without sending value, they would offer a supply of remittances to such as wished to avail themselves of the low exchanges in order to import gold, and thus, as far as their power went, they would prevent the reaction in the exchange, and the cessation of bullion shipments, which would otherwise be likely to occur much sooner. Those who draw bills in this manner on credit, may be actuated by two different motives: either they may wish to secure the use of the money paid as the price of the bills, for legitimate or illegitimate purposes, during the two months which the bill has to run, that is to say, till the time when they must refund the money in order to buy remittances,—or they believe that when their drafts come to maturity there will be a larger supply of bills on the market, and that then they will be able to make a profit by buying

their remittances at a cheaper price than they obtained for their drafts. The issue of drafts drawn upon credit, and not against any debt—that is to say, by which the drawer incurs a debt, instead of securing to himself the payment of a debt of another—is a measure by which the merchants of the country in which they are drawn may be temporarily alleviated, and relieved of the necessity of making bullion remittances if they are in debt, or be enabled to make cheaper remittances if they want to give orders. And they are useful enough when they bridge over an interval which may exist between the seasons of exports and imports, as in that case they may save the double transmission of bullion. But where the balance of indebtedness is, not momentarily, but actually, against any country, such a measure is likely to be attended with dangerous consequences, as, though giving relief for the moment, by supplying that which is in great demand, and which cannot otherwise be got, at the expiration of a certain time it will add to the difficulty, as an equal amount must then again be withdrawn.

On the Continent, this species of bills is often used as an engine for drawing gold from England;

in fact, as a mode of borrowing in the London market. Drafts are issued, payable three months after date; these are remitted to London, and there discounted, the proceeds being invested in gold, and shipped abroad. When the exchanges are unfavorable to the Continent,—that is to say, when a bill on England commands a larger number of dollars or florins than usual,—such bills create an artificial supply, and may prevent the price from running up to specie point.

It is scarcely desirable to enter into further details as to the various artificial means and banking manœuvres, by which those who speculate in the exchanges—that is to say, on the rise and fall of the prices for foreign bills—manage to influence or counteract what may be called the natural fluctuations. It is only necessary to point to the existence of such speculations and their attendant circumstances; as, otherwise, errors might be committed through the confusion of temporary and artificial fluctuations with the natural and inevitable consequences of regular and definable laws.

The object of the present treatise has been to unravel a few of the most important first principles at which we may arrive in the study of the Foreign Exchanges; and especially to exhibit, as

clearly as possible, the origin and natural explanation of transactions which, in their more complicated form, appear too technical and confused to be easily appreciated by the general public. In these first principles there is, in reality, nothing difficult or abstruse. The difficulty lies not in the apprehension of them, when they are plainly and popularly stated (they then seem almost a matter of course), but in the stating of these principles in sufficiently plain and popular language.

Thus, if the perusal of the preceding pages leaves the reader more confused as to the Foreign Exchanges than he was before, he must by no means believe that he has been engaged upon a subject which is too technical or too difficult, too little amenable to the usual method of scientific inquiry, or too complicated by a perpetually shifting mass of practical details, for any satisfactory result to be obtained. He must rather believe that the author is in fault through his inability to convey clearly to the reader's mind that which to himself seems patent enough, and through his not possessing sufficient mastery of language to be able to dispense with the jargon of the money-market and the exchange.

The Foreign Exchanges are pre-eminently a subject which less requires controversial discussion than a careful and thorough analysis. The main principles which have been advanced as to the origin of exchange operations, as to the groundwork of international indebtedness, as to the various classes of foreign bills, as to the different causes which regulate the fluctuations in their price, and as to the conclusions which may be drawn from these fluctuations, are rather statements of self-evident though somewhat complex truths, than matters for controversy and discussion, while only that branch of the inquiry which treats of the correctives of unfavorable exchanges can legitimately form a battle-field for attack and defence. For any subject to be satisfactorily argued, and for the value which attaches to conflicting theories upon it to be fairly appreciated, it is above all things necessary that it should be clearly understood; and the object of the present essay will have been fully attained if it proves in any way instrumental in promoting clearer and more positive ideas as to the most general principles and rudimentary facts which present themselves in any inquiry into the laws of the "Foreign Exchanges."

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